Economic Globalization—Seizing Opportunities and Addressing Challenges
Background

The exponential growth in international trade and investment over the last few decades has changed economies and ecosystems throughout the world in unprecedented ways. The pace and extent of this change offers unique opportunities but also poses significant challenges for environmental protection and sustainable development.

It has long been understood that one of the key requirements for sustainability is informed and balanced policy development and implementation. The Earth Summit’s watershed document, Agenda 21, emphasizes the need to build national capacities to “integrate social, economic, developmental and environmental issues at all levels of development decision-making and implementation.” This was more recently echoed in the Millennium Declaration, which noted that each country should integrate the principles of sustainable development into country policies and programmes.

In addition to calling for more integrated policymaking, Agenda 21 promotes the development and use of analytical tools to this end, such as environmental impact assessment (EIA), life-cycle analysis, risk assessment, and environmental and natural resource accounting. These tools can provide policy makers with more complete and accurate information on the effects of projects and policies, allowing them to make appropriate decisions.

For many years, UNEP has focused on developing and applying these analytical tools. Its work in the 1980s included the development of sectoral guidelines and training manuals on EIA. More recently, through its Economics and Trade Branch, UNEP’s activities have expanded to include developing assessment methodologies and reference materials, conducting country projects, facilitating multi-stakeholder consultations and inter-ministerial coordination, and supporting training and capacity-building activities. These activities are now needed more than ever given the rapid pace of globalization.

Mission Statement and Objectives

The UNEP Economics and Trade Branch seeks to conserve the environment, reduce poverty and promote sustainable development by enhancing the capacity of governments, businesses and civil society to integrate environmental considerations into economic, trade and financial policies and practices.

In accordance with this mission and drawing on the mandate established in UNEP Governing Council Decisions (GC) 21/14 and 20/29 and in the work programme adopted at GC 22 and 23 (contained in UNEP/GC.22/6 and UNEP/GC.23/8), as well as other international documents such as the World Summit on Sustainable Development’s (WSSD) Plan of Implementation and UNEP’s Bali Strategic Plan, the UNEP Economics and Trade Branch focuses on achieving the following four objectives in the field of economics, trade and finance:

1. Promoting integrated policy design and implementation with emphasis on sound environmental management, sustainable trade promotion and poverty reduction.
2. Strengthening environmental management through the use of economic instruments and subsidy reform.
3. Promoting mutually supportive trade and environmental policies.
4. Enhancing the role of the financial sector in sustainable development.
**Approach**

UNEP employs a number of methods and approaches for ensuring tangible results are achieved in undertaking its activities, including:

- Developing user-friendly information, and management and training tools that can be tailored to local needs and priorities, in partnership with international organizations, public authorities, businesses and industry, and non-governmental organizations.
- Organizing and supporting training of trainers in order to scale-up capacity building activities at the national, sub-regional and regional levels.
- Responding to national governments to ensure that their needs and priorities are fully reflected in programme activities.
- Engaging ministries of environment, planning, finance, trade and foreign affairs, and other sectoral ministries, such as agriculture, and promoting coordination among them.
- Developing national, as well as regional and sub-regional institutional capacities, to integrate environmental considerations in macroeconomic and trade policies.
- Networking with a wide range of other partners and stakeholders to draw on the wealth of expertise in national ministries, research institutions, universities, businesses and non-governmental organizations.

**Box 1: Building global partnerships for sustainable development capacity building**

In March 2003, UNEP launched the Network of Institutions for Sustainable Development (NISD) to strengthen regional and national institutions in their efforts to build capacities for integrating sustainability considerations into macroeconomic policies and development planning. The 24 member institutions from different regions (Asia, Africa, Latin America and Europe), including universities, research and training institutions and non-governmental organizations (NGOs), agreed to jointly promote the integration of environment and sustainability issues into economic and trade policies. About 360 experts from the member institutions are directly involved in this Network, which aims to enhance the visibility and outreach activities of its members and support capacity building activities in identified priority areas. The main responsibility for designing and implementing NISD capacity building activities lies with the members, who are encouraged to use existing UNEP training and reference materials, initiate projects, enter into partnerships, and seek co-funding for capacity building activities.

**Key Priority Areas**

To achieve its objectives, UNEP focuses its activities in the following key priority areas:

- Mutually supportive trade and environmental policies
- Integrated policymaking and assessment
- Economic instruments and payments for ecosystem services
- Fisheries subsidies reform
- Sustainable agriculture
- Environmental goods and services
- Regional trade agreements
- Sustainable finance

### A. Mutually supportive trade and environmental policies

The world is experiencing unprecedented expansion in international trade. This poses both opportunities and challenges for environmental protection and sustainable development. At the WSSD in 2002, governments identified trade as an important driver of sustainable development. Well-designed trade policies can promote economic growth, help reduce poverty and encourage sound environmental management. However, as demonstrated in previous UNEP country projects, poorly designed trade policies can contribute to environmental damage and depletion of natural resources leading to a reduction in welfare gains. The challenge facing policymakers is how to develop and implement mutually supportive trade and environmental policies that achieve national environmental, economic and social objectives.

Unfortunately, there is often little interaction between national trade and environment officials in the development and implementation of national policies and multilateral agreements. This lack of dialogue has created the potential for conflicts between the trade and environmental regimes. Since 1999, UNEP has organized a series of international workshops involving MEA and WTO Secretariats, governments and NGOs to enhance cooperation and promote synergies between the two regimes. These activities helped create some of the international momentum that led to trade and environmental issues, including the relationship between MEAs and the WTO, to be included as negotiating items in the Doha Ministerial Declaration in 2001.
Since Doha, UNEP has continued its efforts to enhance information exchange between MEAs and the WTO through the organization of a number of meetings between MEA Secretariats and the WTO, and through the development of papers analysing this relationship. UNEP also continues to support the effective participation of MEA Secretariats in relevant WTO negotiations and discussions through direct consultations and the organization of informal meetings. These meetings allow UNEP and the MEA Secretariats to discuss the ongoing WTO negotiations, their respective mandates and activities, and exchange relevant information and experiences.

In order to enhance coordination between the trade and environment regimes, UNEP has also sponsored the participation of representatives from national environmental ministries in the WTO Committee on Trade and Environment. This participation has proven invaluable for ensuring that a balanced national view is expressed in the negotiations.

**Box 2: Strengthening capacities at the interface of trade, environment and development**

In 2000 at UNCTAD X, a joint Capacity Building Task Force on Trade, Environment and Development (CBTF) was launched between UNEP and the United Nations Conference on Trade and Development (UNCTAD) to respond to requests from countries for capacity building and technical assistance on issues related to the interface of trade, environment and development. Since that time, the CBTF has successfully provided technical support to a wide range of beneficiaries in developing countries and transition economies, including more than 30 training workshops, 10 country projects and eight thematic research studies, and offered capacity building assistance to nearly 1,000 policy makers from more than 30 countries. By combining UNEP’s expertise on the environmental aspects of trade and UNCTAD’s expertise on the developmental aspects, and by utilizing both organizations’ global networks and work programmes, the CBTF provides a highly effective framework for implementing a comprehensive set of capacity building activities that respond to nationally defined needs. The CBTF is an extrabudgetary programme that depends on the financial support of donors, which in the past have included the European Union, United States, Germany, Norway, Sweden, United Kingdom and Italy.

UNEP has also recently raised significant extra-budgetary funding to support two multi-year initiatives in support of MEA implementation. The first is a four-year initiative launched in 2005 to support developing countries in Africa, the Caribbean and the Pacific in their efforts to implement the Convention on Biological Diversity by enhancing national capacities to assess, design and implement policies that maximize development gains from trade in the agricultural sector while minimizing the impact on biodiversity. UNEP has also recently initiated a two-year project which is being implemented jointly by the UNEP-UNCTAD Capacity Building Task Force on Trade, Environment and Development (see Box 2), the CITES Secretariat and the Geneva-based Graduate Institute of Development Studies, to promote sustainable development by enhancing the capacities of developing countries and countries with economies in transition to assess, design and implement effective national wildlife trade policies. Through such capacity building activities and analytic research, UNEP plans to continue to play a leading role in securing more mutually supportive trade and environment policies by supporting the implementation of MEA trade-related measures at the national level.

**B. Integrated policymaking and assessment**

Despite continuous international pronouncements on the need for integrated policymaking, macroeconomic policies, including trade liberalization policies, still fail to adequately reflect environmental considerations. The result has been that many of these policies have not only led to environmental and social problems, but also threaten to undermine their economic objectives. Such failures are also mirrored in environmental policies, which often exclude considerations of economic and social factors and their interactions with the environment. These failures, rooted in the lack of interdisciplinary and inter-agency coordination, have prevented progress towards integrated policies that support sustainable development objectives.
UNEP has been one of the pioneers in responding to these challenges. Since 1997, UNEP has supported a series of national-level integrated assessments (see Box 3) of macroeconomic policies. UNEP's early assessment work focused primarily on ex-post environmental assessments of these policies, similar to traditional environmental impact assessments. This work evolved over the years to include consideration of social and economic impacts with a focus on how these impacts relate to environmental impacts. The assessment work also gradually evolved from promoting primarily ex-post assessments of policies to a more ex-ante or concurrent approach that promotes analysis of options before a policy is fully formulated. This shift culminated in UNEP's recently completed Integrated Assessment and Planning initiative, which involved 9 national-level pilot projects focused on producing environmental, social and economic data to inform ongoing macroeconomic planning processes.

Building on the results from these country projects and past initiatives, UNEP recently launched the development of a "Reference Manual for Integrated Policymaking" in partnership with the Lee Kuan Yew School of Public Policy at the National University of Singapore. The aim is to encourage governments and other policy actors to systematically apply an integrated approach – in environmental, social, and economic terms – to making public policies, focusing on economic and trade policies.

Box 3: What is integrated assessment?

Integrated assessment is a process for considering the economic, environmental and social effects of current or future policies and the linkages between these effects. It aims to provide information and analysis so that negative consequences from policies can be avoided or mitigated, and positive effects can be enhanced through the development of a package of policy responses, including command-and-control policies, economic instruments and voluntary initiatives. Integrated assessment aims to achieve a number of specific objectives, such as:

- Demonstrating the linkages between the environment, economics and trade, sustainable development and poverty reduction;
- Demonstrating how environment provides an opportunity for trade promotion, poverty reduction and sustainable development;
- Emphasizing a gradual change in the culture of designing and implementing national policies that is geared towards achieving sustainable development objectives; and
- Ensuring policy relevance of proposed policy responses to increase their potential for influencing policy and decision-making processes.

UNEP plans to continue its efforts to build and enhance the capacities of policymakers to factor environmental and social considerations in trade policymaking processes. Specifically, UNEP plans to support the development of regional centres of excellence on trade and environment through its Network of Institutions for Sustainable Development (see Box 1) in the delivery of a long-term capacity building programmes. The goal is to create a critical mass of professionals motivated and enabled to champion the course of trade and environment. UNEP and McGill University of Canada have already established a joint Master's Programme on Environmental Assessment. UNEP is currently exploring with the Government of Singapore opportunities to establish such a mechanism for the Asia-Pacific Region. Based on the experience from this effort, UNEP will consider expanding this programme to other regions of the world.

C. Economic instruments and payments for ecosystem services

Economic decisions are influenced by explicit or implicit cost-benefit considerations. These decisions can have a tremendous impact on the environment. Problems occur when the costs of pollution and resource depletion from these decisions are not appropriately accounted for, resulting in the environmental costs from these decisions being borne by others.

UNEP has responded to these fundamental challenges by developing and promoting the application of a range of economic instruments that promote environmental protection. Economic instruments have the potential to supplement traditional command-and-control policies and achieve national and multilateral environmental objectives through a more efficient allocation of resources and the promotion of environmentally-friendly products and production processes.

In the last two decades, UNEP has mobilized teams of internationally renowned environmental economists to conduct cutting-edge research on economic instruments, collate practical examples from around the world, and publish materials that are used as the first reference points by many people working in these fields.

A major constraint that prevents more widespread application of economic instruments is the lack of technical capacity in many countries. To address this constraint, UNEP, with the help of a 25-member expert working group established in 2001, has provided technical assis-
tance to policy makers and other stakeholders in designing economic instruments to fit local conditions. UNEP has also been working with the World Bank, United Nations Development Programme, Organisation for Economic Co-operation and Development, and national governments to promote environmental fiscal reforms aimed at improving the environment and contributing to poverty reduction.

In recent years, with the conclusion of the Millennium Ecosystem Assessment, UNEP’s work on economic instruments has expanded to include positive incentives for sustaining ecosystem services. UNEP is working with the World Conservation Union (IUCN) and the Convention on Biological Diversity Secretariat in developing a programme on *International Payments for Ecosystem Services*. The purpose is to improve the efficiency, effectiveness, and equity of ecosystem management through three sets of activities: 1) working with a network of international experts to resolve technical and policy issues related to payments for ecosystem services; 2) engaging the business community to explore its incentives for participating in payments for ecosystem services; and 3) supporting national-level consultations in selected mega-diverse countries to discuss the feasibility of international payments for ecosystem services, and on that basis, identifying portfolios of ecosystem services that may be covered by international payments.

### D. Fisheries subsidies reform

Seventy-five per cent of the global marine fisheries are currently overexploited, fully exploited, significantly depleted, or recovering from overexploitation. This troubling state of affairs has serious environmental, economic, and social consequences, especially in developing countries that rely on fisheries as a vital source of food, employment, and foreign exchange. Government subsidies to the fisheries sector have contributed significantly to this unprecedented crisis. Estimated at US$ 20 billion per year, fisheries subsidies distort trade while encouraging overcapacity in fishing fleets and unsustainable levels of fishing, undermining the livelihoods of many fishing communities. The WSSD named the elimination of harmful fishery subsidies, and the successful completion of current WTO talks towards that end, one of the top eight priorities for global fisheries. The WTO negotiations present a unique and historic opportunity to operationalize the sustainable development objective contained in the WTO preamble, and to prove that win-win-win outcomes for trade, environment and development are more than rhetoric.

Since 1997, UNEP has been one of the leading intergovernmental bodies promoting international efforts to understand and respond to the problem of harmful fisheries subsidies. Amongst other things, UNEP’s work aims to strengthen the capacities of developing country governments and other stakeholders to participate in subsidy reform negotiations at international fora such as the WTO, and to improve national, regional and international cooperation on the issues of sustainable fisheries management and subsidies. Activities range from supporting country projects and analytical work on fishery subsidies and sustainable fishery management to convening international workshops to promote discussions amongst stakeholders.

At a UNEP-WWF workshop on fisheries subsidies convened at the Hong Kong Ministerial Conference and two subsequent roundtables on the issue in 2006, UNEP was encouraged to continue assisting countries in confronting the concrete policy challenges raised by the fisheries subsidies issue and to strengthen the capacities of policy-makers and other stakeholders to engage in national and international efforts to reform harmful subsidies and promote sustainable fishing. UNEP is responding to this request by developing a series of analytical issue papers relevant to the ongoing fisheries subsidies negotiations, including papers on sustainability criteria and access agreements and preparing for sub-
stantive discussions with policy makers, negotiators, experts and other stakeholders. Some of these activities will take place as part of a UNEP project on Promoting Sustainable Trade, Consumption and Production Patterns in the Fisheries Sector.

**E. Sustainable agriculture**

The agricultural sector is critical for many countries as a source of livelihood, food security, and economic development. For a number of years, UNEP has been assisting countries to promote sustainable agriculture through the use of assessment methodologies. In addition to its assessment work, UNEP is currently engaged in a new series of activities focused on exploring production and trading opportunities for organic agriculture. Many countries are beginning to promote this sector given its potential for creating a win-win-win scenario of enhanced market access, environmental protection, and poverty reduction. However, promoting organic agriculture also has constraints and risks, particularly for developing countries, including food security issues, stringent quality requirements, expensive certification systems, price fluctuations, and preferences for locally produced food. Thus, a central challenge facing these countries is determining how best to take advantage of the organic agriculture’s market access opportunities while also overcoming the constraints and minimizing the risks.

In collaboration with the UN Food and Agriculture Organization and UNCTAD, UNEP is currently helping East African public and private sectors explore the potential opportunities and risks associated with organic agriculture through studies and assessments. This initiative includes facilitation of a multi-stakeholder process for developing appropriate regional organic agricultural standards. UNEP is currently exploring ways of expanding this work to other countries and regions interested in pursuing organic agricultural opportunities.

**F. Environmental goods and services**

Technology has proven to be an essential tool for reducing and controlling pollution, treating waste, helping to sustainably manage natural resources, monitoring the state of the environment, and predicting environmental change. The key role technology plays in addressing environmental objectives is explicitly reflected in a number of MEAs, which often include provisions related to identifying, facilitating access to and encouraging the transfer of technology.

In Doha, WTO Members agreed to pursue negotiations on the possible reduction of tariffs and non-tariff barriers for environmental goods and services (EGS) as a means of promoting mutually supportive trade and environment policies.

UNEP, through the joint UNEP-UNCTAD CBTF, has undertaken a number of complementary activities to enhance the capacity of developing country negotiators to actively participate in the WTO EGS negotiations, such as organizing national stakeholder workshops on EGS, supporting the development of country case studies on EGS, and updating a matrix on environmental goods of export interest to developing countries. In addition, UNEP recently supported the development of an analytical paper that provides a summary of relevant MEA provisions related to technology and an overview of the activities undertaken by MEA Secretariats and their Parties in identifying and facilitating the transfer of technology.

UNEP is continuing its work on the relationship between MEAs and environmental goods and services through a joint project between the UNEP-UNCTAD CBTF, University of Geneva Faculty of Law, Geneva-based Graduate Institute of International Studies, and the International Network for Environmental Compliance and Enforcement. The aim of this project is to determine the role of trade rules and institutions in facilitating the transfer of environmentally friendly technologies.

**G. Regional trade agreements**

There are currently more than 170 regional trade agreements (RTAs) in force. RTAs account for significant volumes of trade and can have considerable impacts on the environment. They are consequently an important focus for policy makers who are interested in promoting a balanced and integrated approach to trade and environmental policies in pursuit of sustainable development.
In recent years, UNEP plans to increase its activities focused on enhancing capacities of developing countries to understand the implications of RTAs on the environment and sustainable development. In collaboration with the Organization of American States (OAS), UNEP convened an informal dialogue to assess the feasibility and relevance of establishing a Working Group on Trade and Environment Capacity Building for Latin America and the Caribbean. UNEP and OAS are in the process of developing the next steps with regard to this working group. Eventually, UNEP may consider establishing similar working groups in other regions.

H. Sustainable finance

The UNEP Finance Initiative is a public/private partnership between UNEP and some 170 banks, insurers, asset managers and asset owners worldwide. UNEP FI, initiated in 1992, works to identify, develop and promote best practices for financial service organisations seeking to adopt and adapt to the demands and opportunities presented by sustainable development. Given the fundamental role of financial services as an engine in the processes of globalization and trade liberalization, UNEP FI’s role, profile and range of activities have grown significantly since 2000.

UNEP FI’s working groups and regional task forces, typically made up of 10 to 15 financial institutions, work to develop standards, guidance and best practice approaches for financial institutions around several core areas of focus including responsible investment, climate change, sustainable insurance, responsible property investment and sustainability management and reporting. UNEP FI also has evolving working streams on finance and ecosystem services, finance and water, and finance and human rights. UNEP FI has regional groups covering Africa, Asia-Pacific (with sub-groups covering Japan, Korea, Asia (other than Japan and Korea), and Australasia), Central and Eastern Europe, North America and Latin America. In recent years, UNEP FI has also undertaken a project on finance and environmental challenges in post-conflict areas.

In 2004-2006, UNEP FI was instrumental in a process convened by former UN Secretary-General Kofi Annan to develop a set of principles governing responsible investment for the world’s largest institutional investors, including pensions funds, special government reserves and foundations. The UN Principles for Responsible Investment (UNPRI) were launched by Secretary-General Annan in April 2006 and are now backed by some 135 institutions with more than US$ 6 trillion in assets owned or under management – this figure represents more than 12% of global capital market value. UNEP is represented on the UNPRI board and is playing the lead role in building awareness of the UNPRI in developing and transition economies.

UNEP FI members work to represent financial services within the UNFCCC international climate negotiations and has presented substantive papers at every Conference of the Parties (COP) since 2001, covering issues ranging from emissions trading, renewable energy, the clean development mechanism, and most recently at the Nairobi COP in November 2006, exploring the role and responsibilities for the global financial services sector in adaptation and vulnerability. In 2006, the Convention on Biological Diversity COP formally requested UNEP FI to play a leading role in bringing the financial services sector closer to the CBD process. As a result, UNEP FI has launched a work stream on finance and ecosystems services/biodiversity that will initiate activities in 2007.

Conclusion

Although the international community has repeatedly called for the development and implementation of integrated policies that support sustainable development, major challenges remain. Macroeconomic, trade, financial, poverty reduction, and environmental policies are still formulated independently from each other. Trade and investment agreements at the multilateral, regional, and bilateral levels, in particular, are still negotiated with little assessment of their implications for environmental objectives and poverty reduction efforts. Moreover, price distortions including subsidies continue to encourage inefficient and environmentally harmful activities with little benefit to the poor. Rapid trade and investment liberalization, diminished concerns for the environment, and massive economic expansion in a few large emerging economies, have further intensified these challenges.

UNEP is at the forefront of the response to these challenges. Over the last decade, UNEP has been leading global efforts to develop and apply innovative analytical tools for integrated policy-making and assessment. UNEP is now intensifying its efforts to build and enhance capacity and cross-sector understanding and coordination to enable national planners, negotiators, financial institutions, WTO officials, MEA secretariats, and other stakeholders to adopt a more integrated and balanced approach for developing and implementing policies.