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# Reconciling Trade and Environmental Protection in ASEAN-China Relations: More than Political Window Dressing?

Jörn Dosch

**Abstract:** Has the growing pro-environment rhetoric in ASEAN-China relations resulted in the effective mainstreaming of environmental issue into trade agreements and multilateral cooperation frameworks? The article discusses the cases of the ASEAN China Free Trade Area (ACFTA) and the Greater Mekong Subregion (GMS) and argues that there is no shortage of national and regional policy agendas that visibly link trade growth and environmental considerations. However, this nexus is still a weak one in terms of implementation and effectiveness. The most promising initiatives towards an effective reconciliation of trade growth and environmental sustainability are promoted and often driven by foreign donors, most prominently the European Union (EU).

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**Keywords:** China, ASEAN, GMS, ACFTA, trade, environment, foreign donors

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## Introduction

Throughout the 1990s, trade between China and ASEAN grew at an annual rate of 16% and the trade volume stood at USD 29.6 billion in 2000 (Xiao 2009: 309). Over the following decade trade increased almost tenfold and reached USD 292.8 billion in 2010. The largest annual increase (37.5%) during this period was achieved in the last year of the decade and has been attributed to the ASEAN-China Free Trade Area (ACFTA) which came into full effect on 1 January 2010 (China Customs 2011). The FTA has a combined GDP of USD 6.6 trillion and comprises 1.9 billion people (ASEAN Secretariat 2010). Virtually all states in Southeast and Northeast Asia – with the only notable exception of North Korea – have embarked on far reaching trade liberalization programs, driven by – or as a requirement of – World Trade Organization (WTO) membership, multilateral or bilateral trade agreements or other international factors. Yet, environmental concerns have not been a primary policy focus of the region's governments. As a United Nations Development Program (UNDP) study put it with regard to the case of the Greater Mekong Subregion (GMS), one of the most successful sub-regional cooperation schemes that brings together China and five ASEAN members states,

[t]he common challenge facing the GMS [...] is to balance the three dimensions—economic, environmental and social—of sustainable development. The GMS countries cannot afford the 'grow now, clean up later' approach experienced in the more advanced economies in the region and elsewhere in the world (UNDP 2007).

The understanding that rapidly expanding trade and generally economic growth are unsustainable over the long term if they create substantial environment costs has gained more prominence in the wake of international concerns about climate change and degradation of natural resources.<sup>1</sup> Attempts to upgrade environmental legislation and law enforcement as well as the strengthening of the environmental bureaucracy have taken place in China and several ASEAN states, such as Vietnam, Indonesia and Thailand. Overall, reconciling trade and investment liberalization and environmental protection is one of the key challenges facing both China and ASEAN. According to the Deputy Secretary-General of ASEAN Dato' Misran Kar-main (2011),

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1 The author wishes to express his thanks to the Association of South-East Asian Studies in the UK (ASEASUK) and the International Institute for Sustainable Development, Canada, for the generous support of the research for this study.

it is therefore only natural that ASEAN and China [...] pay great attention and foster cooperation on promoting environmental sustainability to balance the economic development in the region.

This assessment is shared by Chinese Premier Wen Jiabao (2010) who, on the occasion of the 13<sup>th</sup> China-ASEAN Summit in October 2010, proposed to “take solid steps to push forward our exchanges [between China and ASEAN] and cooperation in circular economy, green economy, energy conservation and environmental protection”.

This article asks whether the growing pro-environment rhetoric within ASEAN, in China and in ASEAN-China relations has resulted in the effective mainstreaming of environmental issue into trade agreements and multilateral cooperation frameworks. It will particularly delve into the ASEAN China Free Trade Area (ACFTA) and the Greater Mekong Subregion (GMS) and look at the extent to which environmental considerations have been taken into account in these contexts. It is argued that there is no shortage of national and regional policy agendas that visibly link trade growth and environmental considerations both within ASEAN and in ASEAN-China relations. However, this nexus is still a weak one in terms of implementation and effectiveness. The most promising initiatives towards an effective reconciliation of trade and the environment are promoted and often driven by foreign donors, most prominently the European Union (EU). The article begins with some general thoughts on the linkages between the environment and trade. It then discusses the two case studies (ACFTA and GMS) with special emphasis on the role of foreign donors.

## Linkages between the Environment and Trade

It is often stated that the processes of economic liberalisation and international market integration reforms go along with more efficient resource use, including the use of environmental resources. The World Bank (2000) and WTO (1999; 2004) propose that in practice more open trade improves growth and economic welfare. This in itself could then result in more resources being made available for environmental protection. Increased real income, and with it the emergence of vocal urban middle classes and proactive civil society organizations, is also often associated with growing demand for environmental quality. Countries that are more open to trade seem to adopt cleaner technologies more quickly. Greater openness to trade is also said to encourage cleaner manufacturing, because protectionist economies tend to shelter pollution intensive heavy industries. Ultimately, though, it is empirically difficult to prove a strong correlation between trade liberalisation

and more environmentally sensitive legislation and policymaking. Both pressures on the environment and natural resources and strategies to respond to environmental challenges are more directly related to government policies and institutions than to trade openness per se (WTO 2006: 54).

Trade liberalisation may even lead to negative impacts on the environment. Mani and Jha (2006) argue that reducing barriers to trade may reinforce the tendency for countries to export commodities that make use of resource intensive production factors. As a result of weak environmental policies, trade liberalisation may result in shifts in the composition of production, exports and foreign direct investment (FDI) to more “dirty” industries. Furthermore, trade liberalization may directly affect environmental standards. Intensified competition could lead to a “race to the bottom” as governments lower standards in the hope of giving domestic firms a competitive edge in world markets or attracting FDI. However, competitiveness concerns over environmental policies seem to have been overstated, as a study by the Cambodian Development Research Institute (CDRI) suggests:

Competitiveness is determined by factors including human capital, technology, business climate, quality of a country’s institutions and so on. While environmental controls are likely to add costs to production, they do not seem to be significant in total production costs, having limited influence on price and competitiveness compared to other factors (CDRI 2009: 18).

Divergent views on causal links between trade and the environment are reflected by the negotiating positions of Southeast and Northeast Asian members of the WTO Committee on Trade and Environment. Yohei Harashima (2008: 33) explains that

Asian countries’ views on trade and environment differ on [...] environmental goods, market access, effect of trade liberalization on the environment, intellectual property rights and environmental labelling. In some cases, they have opposing views.

While it is true that the quantity of environmental policies and regulations in Asia – as almost everywhere in the world – has increased due to the pressure and lobbying of both international and domestic stakeholders,

environmental ministries or equivalent agencies in the region are often ill-equipped either to enforce existing regulations or to design, implement, monitor, inspect and enforce new effective environmental policies (Zhang 2008: 11).

The protection of the environment is regarded as a niche area and assigned to often powerless ministries of the environment that usually find them-

selves in the lower ranks of the government hierarchy. Few countries effectively mobilise other line ministries to this challenging task.

Interestingly, in the growing body of literature on economic security, as a core component of human security or non-traditional security, environmental factors do not yet feature prominently as an intervening variable. According to a popular definition, economic security entails

safeguarding the structural integrity and prosperity-generating capabilities and interests of a politico-economic entity in the context of various externalized risks and threats that confront it in the international economic system (Dent 2007: 210).

Risks and threats are usually confined to market access, access to finance and credit, access to technology, and other economic factors in a narrow sense.

## The First Test Case: The ASEAN-China Free Trade Area (ACFTA)

China and most ASEAN states have environmental clauses established as a constitutional principle and the extent of the respective legislation has increased significantly in the last decade. China and most ASEAN states are also members of the main global environmental treaties, such as the UN Framework Convention on Climate Change, the Kyoto Protocol to the UN Framework Convention on Climate Change, the UN Convention on Biological Diversity and the UN Convention to Combat Desertification. However, both China and the majority of ASEAN states struggle in the field of effective administration, which affects the enforcement of national laws and the fulfilment of international obligations alike. Whereas Singapore is the only state in the region that has enforcement capacity comparable to (or even better than) average Western industrialised countries, Cambodia, for example, at the other end of the spectrum, suffers from deeply rooted dysfunctions in the country's administrative and judicial structures. Although the current process of strengthening ASEAN (based on the ASEAN Charter and the gradual implementation of the ASEAN Community 2015) might be helpful in terms of a more effective environmental policy in the region, success in the quest for environmental sustainability depends to a great extent on an overall improvement in the administrative systems, legal structures and capacities of the countries in the region (Menzel 2007).

A test case for the seriousness with which environmental considerations are taken in national trade and investment deliberations is ACFTA.<sup>2</sup> While most reports and academic papers on the ACFTA and its Early Harvest Program (EHP), which preceded full implementation, have not elaborated on environmental implications, a study by the Cambodian Development Research Institute discusses the environmental impact of regional free trade in detail (CDRI 2009). According to the report, which was published before ACFTA came into full effect but takes trends under the EHP into account, trade between the GMS5 countries (Cambodia, Lao PDR, Myanmar, Thailand, and Vietnam) and China has expanded significantly since the signing of the initial framework agreement in 2002 – especially for products that do not have to comply with extensive health and food safety standards. Trade between the GMS5 countries and China mainly comprises a small number of product groups such as machinery and electrical appliances, base metals, mineral products, chemicals, textiles and apparel, and rubber and vegetable products of which many fall into the category of the most polluting sectors. Regardless of the method applied to identify pollution-intensive industries – either by incurred high levels of abatement expenditure per unit of output or using detailed emissions intensities by medium – the results are always the same: the “dirty industries” are iron and steel, non-ferrous metals, industrial chemicals, petroleum refineries, non-metallic mineral production as well as pulp and paper (Mani and Wheeler 1997: 5). The table below shows that the share of products in the most polluting sectors in overall GMS5-China trade increased from 21.93% in 2001 to 25.36% in 2007, while the Estimated Pollution Intensity (EPI) increased from 17.9 pounds to 118.5 pounds.

Furthermore, within the GMS there is considerable trade in natural resources such as minerals, agricultural goods and timber, and in products derived from these resources. Trade in natural resource based products raises concerns over resource depletion (CDRI 2009). For example, legal exports of wood and wood products from Thailand to China increased from USD 30.9 million in 2000 to USD 441.4 million in 2009, while they grew from USD 11.8 million (2000) to USD 327.6 million (2009) in the case of Vietnamese exports to China.<sup>3</sup>

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2 For the full text of the agreement see <<http://www.aseansec.org/16646.htm>>.

3 Author's own calculations based on data from the UNTAC Comtrade database.

Table 1: Most Pollution-intensive Products in Trade between GMS5 and China

Product group	Value in USD billion			Share (%)			EPI* (in million pounds)		
	2001	2004	2007	2001	2004	2007	2001	2004	2007
Base metals	0.63	2.37	6.09	5.8	9.2	11.5	5.6	21.3	54.9
Chemicals	0.75	1.92	4.40	7.0	7.4	8.3	9.4	24.0	54.9
Plastics	0.72	1.41	2.15	6.7	5.5	4.1	1.8	3.5	5.3
Pulp and paper	0.19	0.20	0.47	1.7	0.8	0.9	0.7	0.7	1.7
Hiders and leather	0.08	0.20	0.33	0.7	0.8	0.6	0.4	1.0	1.7
<b>Total</b>	<b>2.37</b>	<b>13.44</b>	<b>13.44</b>	<b>21.93</b>	<b>23.62</b>	<b>25.36</b>	<b>17.89</b>	<b>50.53</b>	<b>118.5</b>

Note: \* Estimated Pollution Intensity: products emitting more than 1,500 pounds of pollutants per USD 1 million of production fall in the category of most polluting sectors.

Source: Vutha and Jalilian 2008: 30.

In 2010, Vietnam’s total revenues from exporting wood products amounted to USD 3.4 billion and the government plans to more than double the value of wood product exports to USD 7.8 billion by 2020. Since 1997 logging in Vietnam has been strictly controlled and the country currently imports about 80% of its timber supplies – or three million cubic metres of timber a year. This development has resulted in increasing depletion in neighbouring Laos which provides much of the natural tropical timber feeding Vietnam’s furniture sector (Environmental Investigation Agency 2011: 6-7).

Unlike the Japan-ASEAN Comprehensive Economic Partnership Agreement<sup>4</sup> ACFTA does not contain any provisions for cooperation on environmental problems that may arise as a result of trade liberalisation. This has caused concerns in some ASEAN states. For example, an editorial in the *Jakarta Post* warned,

the lack of guarantee in respecting environmental [...] rights in this FTA may put the environment and society in a vulnerable position. We certainly do not want the ASEAN-China FTA to open the way for the destruction of the environment [...] by foreign investors (Prihandono 2010).

4 In Art. 53, see <<http://www.mofa.go.jp/policy/economy/fta/asean/agreement.pdf>>.



Several other agreements and initiatives in China-ASEAN relations, however, do address environmental concerns and it can be argued that the signing of the ACFTA framework agreement in 2002 has triggered a series of initiatives directed at environmental sustainability. The oldest one is the Plan of Action to Implement the Joint Declaration on ASEAN–China Strategic Partnership for Peace and Prosperity of 2004.<sup>5</sup> The declaration is a comprehensive master plan that covers all facets of cooperation and has several significant references to taking environmental issues into account, including but not limited to Mekong River basin development cooperation. Following an initiative by Chinese Premier Wen Jiabao at the 11<sup>th</sup> China-ASEAN Summit in 2007 the China-ASEAN Strategy on Environmental Protection Cooperation was adopted in 2009. Its main objectives are the strengthening of existing cooperation on public awareness and environmental education; environmentally sound technologies, environmental labelling and cleaner production; and the promotion of new areas of cooperation such as biodiversity conservation, environmental management capacity building, environmental goods and services, and global environmental issues. Several related collaborative activities have been carried out to this end, for example the China-ASEAN Environmental Management Seminar (August 2006) in Nanning, the China-ASEAN Seminar on Environmental Labelling and Cleaner Production (July 2007), China-ASEAN Seminar on the Assessment/ Strategic Assessment of Environmental Impact (October 2007) in Beijing, a China-ASEAN Workshop on green industry cooperation and development (November 2010) in Beijing, and a workshop on Innovation in Green Supply Chain (May 2011) in Shanghai. These and other activities culminated in the establishment of the Beijing-based China-ASEAN Environmental Cooperation Centre (CAEC) in 2011 (Karmain 2011). CAEC director Tang Dingding, outlined the centre’s strategy as follows:

First, we will strengthen cooperation on an industrial basis, by exchanging environmentally-friendly technologies, equipment and products. Secondly, we will send college students to gain advanced environmental protection experience from each other. We will also cooperate in such fields as unified product standards, recycled economy, cleaner production, and biodiversity (as quoted by *China Radio International* 2011).

The existing pro-environment agreements, seminars and workshops and especially the CAEC constitute important contributions to awareness raising on the necessity to balance trade growth and environmental sustainability –

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5 See <<http://www.aseansec.org/16805.htm>>.

and thereby clearly go beyond mere political window dressing. To be sure, the issue is not a lack of regional policy initiatives and visions for stronger environmental considerations in trade and investment deliberations. While more recent initiatives are seemingly driven by China, ASEAN laid the groundwork through establishing a network of intergovernmental meetings on the environment, including the ASEAN Ministerial Meeting on the Environment, the Meeting of the Conference of Parties to the ASEAN Agreement on Transboundary Haze Pollution and the ASEAN Plus Three Environment Ministers Meeting.<sup>6</sup> In 2006, ASEAN environment ministers adopted the Cebu Resolution on Sustainable Development<sup>7</sup> to further enhance regional cooperation to protect the environment, promote biodiversity, and deal with cross border problems such as forest fire haze and the illegal trade in wildlife (Sino-Cruz 2006). However, beyond the political rhetoric, ASEAN's environmental commitment in the context of trade facilitation is low. This does not only apply to ACFTA but also other free trade agreements.

For example, negotiations for the ASEAN–Australia–New Zealand Free Trade Agreement (AANZFTA) suffered from ASEAN's insistence on dropping the issue of the environment (as well as those of labour and intellectual property) from the trade talks. As Ramon Vicente Kabigting, a director with the Philippines' Department of Trade and Industry, explained at the time,

some ASEAN members do not have the infrastructure and laws to tackle the three issues. They do not wish to have the issues in an agreement [...] We are not offering any discussions. It is the preference of ASEAN not to discuss labor, environment and intellectual property (cited in *AFX News Ltd. Asia* 2006).

A senior ASEAN official echoed these sentiments. "We want to focus on trade, investment and services" (cited in *AFX News Ltd. Asia* 2006). Australia and New Zealand gave in and the AANZFTA entered into force on 1 January 2010 for eight of the twelve countries that signed the agreement in February 2009. Controversies over the same issues have contributed to the failure of EU-ASEAN Free Trade Agreement negotiations.

The absence of any strong environmental clauses in ACFTA and other FTAs involving ASEAN is mainly a result of the latter's reluctance to create effective policy links between trade and environment. While the Roadmap for an ASEAN Community 2009-15 is very detailed in outlining the signifi-

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6 For these and other institutional arrangements, see ASEAN Secretariat 2009: chap. 9; Apichai Sunchindah 1998.

7 See <<http://www.aseansec.org/18915.htm>>.

cance of environmental issues (in part D) and lists dozens of action points, the document lacks explicit strategies for reconciling trade and environment. The Roadmap's "mission statement" on the environment at least hints at this link:

ASEAN shall work towards achieving sustainable development as well as promoting clean and green environment by protecting the natural resource base for economic and social development including the sustainable management and conservation of soil, water, mineral, energy, biodiversity, forest, coastal and marine resources as well as the improvement in water and air quality for the ASEAN region. ASEAN will actively participate in global efforts towards addressing global environmental challenges, including climate change and the ozone layer protection, as well as developing and adapting environmentally sound technology for development needs and environmental sustainability.<sup>8</sup>

However, no matter how specific the related action points are (the most elaborated and most easily implementable actions deal with pro-environment education, capacity building for various stakeholder groups, ASEAN outreach to the public and intra-ASEAN network building on environmental matters), the following general strategic objective opens the door for immediate member states' veto and exit options and represents a hurdle in the process of implementing the pro-environment agenda (emphasis added):

Effectively address global environmental issues *without impinging* on competitiveness, or social and economic development based on the principle of equity, flexibility, effectiveness and common but differentiated responsibility, respective capabilities as well as reflecting on different social and economic conditions.<sup>9</sup>

This clause effectively works as a *carte blanche* for ASEAN politicians and officials to evade responsibility for and commitment to environmental protection by stressing conflicting priorities. In other words, the Roadmap does not reconcile trade and the environment, but instead potentially prevents the creation of policy linkages between the two areas if individual member states object to any particular policy/ plan of action. Not surprisingly, therefore, the reference to the environment in the ASEAN Economic Community Blueprint is very weak. The only mention is under Article 56 ("Mining cooperation") where the intention to "Promote environmentally and socially sustainable mineral development" is expressed. While strongly promoting

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8 See <<http://www.aseansec.org/publications/RoadmapASEANCommunity.pdf>>.

9 See <<http://www.mfa.go.th/web/35.php?id=21934>>.

the idea of “Green ASEAN” (which was also the motto of the ASEAN Day 2009), the Fourth ASEAN State of the Environment Report 2009 (ASEAN Secretariat 2009) – prepared with the support of the Japanese government and the German Hanns Seidel Foundation – confirms that a truly balanced approach to the three dimensions of sustainable development – economic, social and environmental – is not yet in reach within ASEAN:

The greening of the ASEAN economy requires ASEAN to increasingly pursue market based approaches. The potential for trade in environmental goods and services are huge, and is certainly sustainable in the longer term, compared to the conventional exploitative use of ecosystem resources. However, as developing nations, with about 185 million people in ASEAN still earning less than USD2 a day, *economic growth and social development shall remain a priority* (ASEAN Secretariat 2009: 2; see also p. 152; emphasis added).

In the tradition of the so-called “ASEAN Way”, all existing agreements are embedded in soft law and hardly enforceable – partly due to the lack of a sanctions mechanism. In cases when national and regional legislative and policy initiatives towards environmental protection and sustainability in general and the forging of links between trade/ investment and the environment in particular exist and in some cases are even effective, they are more often than not driven by foreign donors.

## The Role of Foreign Donors

One of the oldest donor funded regional programmes that linked the trade and environment agendas was USAID’s ASEAN Environmental Improvement Programme (ASEAN-EIP), which was established in 1992 with an initial four years of funding of USD 15 million. The programme was designed to address rising urban and industrial pollution in the then six ASEAN countries and to provide a region wide programmatic framework to introduce cleaner industrial production and environmental management. However, the programme did not operate within any existing national policy frameworks and strategies for the achievement of cleaner production and was unable to establish such frameworks and strategies (Stevenson 2004). It is indeed a common problem – not just for interventions targeted at the environment – that donor funded regional programmes for ASEAN are not always well linked and synchronised with national initiatives and often do not respond well to the actual needs of member countries. In early 1995, ASEAN-EIP was absorbed into the larger U.S.-Asia Environmental Partnership programme, a USAID sponsored, USD 100 million public-private

partnership designed to encourage the transfer of U.S. environmental management and technology skills to over 30 Asian countries.<sup>10</sup>

Also in the first years of the 1990s, UNDP provided support to the ASEAN Secretariat at a time when the ASEAN member states made their first important moves towards an ASEAN Free Trade Area and an ASEAN Investment Area, with the intention of developing a well integrated “outward looking” regional economy that could attract significant inflows of FDI. A Subprogramme on Trade and Environment was launched with the objective of laying the foundation for reconciling the trade and environment sectors, developing an information base for the external use of trade measures for environmental purposes and a set of regional guidelines and recommendations on trade and environment, and implementing the major recommendations. The subsequent ASEAN-UNDP Partnership Facility (covering the period 2003–05) was directed at the promotion of a common policy environment through the harmonization of national laws, rules and standards affecting trade and investment, e.g. fair trade rules, environmental standards, product standards, competition policy, etc., with particular emphasis on Cambodia, Lao PDR, Myanmar and Vietnam (UNDP 2003). Smaller UNDP programmes, such as the Regional Environmental Governance Program for Asia Pacific Region (covering 2004–05), have focussed on environmental governance in Southeast Asia by promoting sustainable approaches to natural resources and environmental management at the local level and enhancing the opportunities for public participation in decision making that affects natural resources use and livelihoods (UNDP 2004).

If it is true that environmental considerations find their way into regional trade regimes particularly in cases of foreign donor involvement, the Greater Mekong Subregion (GMS), which is heavily dependent on external funding, should be expected to provide a good empirical example.

## The Second Test Case: Trade and Environment in the GMS

The Mekong River is the world’s twelfth-largest river and Southeast Asia’s longest waterway. It originates in Tibet and flows through the Chinese province of Yunnan before continuing southwards, touching the territories of six countries (China, Cambodia, Lao PDR, Myanmar, Thailand and Vietnam) and ending in the South China Sea. The GMS covers some 2.6 million square kilometres and contains a population of about 326 million people. In

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10 See <<http://www.louisberger.com/berger/services2/16asia.php>>.

1992, with the assistance of the Asian Development Bank (ADB), the six riparian states of the Mekong River (Cambodia, China, Lao PDR, Myanmar, Thailand and Vietnam) entered into a programme of formalized subregional cooperation known as the GMS Programme.

The GMS Programme has the ultimate objective of promoting the development of GMS markets and the movement of goods and people across the common borders. Its key specific objectives include: (1) facilitating subregional trade and investment; (2) facilitating subregional development opportunities, particularly for energy and tourism; (3) facilitating the resolution of transborder issues such as contagious diseases and environmental degradation; and (4) meeting common resource or other needs. As of the end of 2010 the ADB had extended 47 grants and loans for projects totalling USD 10.7 billion of which USD 4.2 billion was provided by the ADB itself and the rest contributed under co-funding arrangements with national governments and other donors (ADB 2010b). The Bank claims that poverty had been significantly reduced as the result of its interventions (ADB 2007). At the same time, the existing dilemma is hard to ignore. While continued economic growth is needed to alleviate poverty, such growth will further place tremendous strains on the natural environment. In general terms, all the GMS economies have been carrying out structural changes from substantially agricultural to modern industrial economies. While governments in most GMS countries have been gradually adopting laws to create simple and transparent rules based private sector environment in a market oriented system, the protection of the environment and the sustainable use of resources regularly take a back seat in the ongoing industrialisation process.

It is correct to say that environmental issues have received some attention from GMS leaders, who have agreed in summit meetings to improve cooperation in addressing environmental challenges common to the region. For example, at a special meeting of the GMS ministers of the environment in Shanghai in May 2005 the GMS Core Environment Programme was launched to ensure stronger coordination in conserving natural systems and maintaining the quality of the environment. Under the programme a Biodiversity Conservation Corridors Initiative is being implemented to protect high value terrestrial biodiversity and protected areas by establishing sustainable management practices and restoring habitat connectivity in these areas. Measures for reducing poverty among communities living in or near the economic corridors, defining appropriate land use, and restoring the connectivity of ecosystems are being undertaken in six pilot sites (ADB no year).

The ADB GMS Programme has an explicit environmental agenda, and projects in this sector have received substantial funding. "Protect the environment and promote sustainable use of the subregion's shared natural

resources” is one of the five core goals of the GMS Strategic Framework (ADB 2010a). However, environmental issues are not mainstreamed into trade facilitation, which forms another core area of activity. The need to link trade facilitation with environmental considerations is particularly urgent with regard to the growing energy trade.

Hydropower is an important focal point in this regard. The sustainable utilisation of water and natural resources in the Mekong basin is directly and inevitably linked to human survival in the region. Energy security – and trade in energy – is mainly related to the promising but not uncontroversial issue of hydroelectric power. The development of hydropower has been among the main priorities of the GMS project and has resulted in the construction of two Lao PDR based power plants, the Theun Hinboun Hydropower Project, which started commercial operation in March 1998, and the Nam Leuk Hydropower Development, which was completed in May 2000.<sup>11</sup>

The uncoordinated construction of power plants and irrigation systems by the upper Mekong countries – particularly China, which plans to build more than a dozen power plants on both the Mekong’s tributaries and the main stream – poses a serious challenge to the subregion’s ecosystem. The construction could result in a potentially explosive competition between the upper and lower Mekong states for water resources. Politicians and senior officials from the lower Mekong states, mainly Thailand, Vietnam and Cambodia, have regularly expressed concerns about China’s proposed dam building activities, albeit more indirectly and in private than openly and in official intergovernmental meetings. Some perceive China’s ambitious hydropower plans as a zero-sum game in which China’s economic gains would be paid for by the lower Mekong states’ environmental costs, such as rising salinity levels in Vietnam’s agriculturally indispensable Mekong delta.

The energy trade has been growing. Since September 2006 China has been supplying electricity to Vietnam through a cross border 220 kilovolts power transmission line to ease Vietnam’s chronic power shortage problems. Further transmission lines are under construction or being planned. China (through the state owned company China Southern Power Grid) is also involved in the building of electricity generation facilities in Vietnam, Lao PDR and Myanmar, enabling the Southeast Asian GMS members to deliver electricity to China’s western provinces when it will be much needed in only a few years’ time to further fuel rapid industrialisation. In February 2009 the Chinese Guangdong Nuclear Power Group announced its interest to help Vietnam build its first nuclear power plant, comprising two 1,000 megawatt reactors to be located in the southern coastal province of Ninh Thuan (*Sì-*

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11 For a more detailed analysis, see Dosch 2010.

*noCast China Business Daily News* 2007; Grieder 2009; Dosch and Vuving 2008). China is also boosting Myanmar's hydropower capacity with 18 joint-venture projects currently under construction in Kachin state. These plants are expected to produce a combined 20,760 megawatts of electricity (*China Economic Review* 2011).

So far the GMS Working Group on Environment has not directly addressed the potential environmental impact of increasing energy trade in the subregion. While the 14th Working Group on Environment Meeting (held in Luang Prabang in July 2008) made a verbal commitment "to actively and appropriately respond to the urgent challenges of the current food crisis and climate change", stressed the need for "strengthening and harmonizing cross sectoral linkages between relevant sectors of the national and subregional development plans" and highlighted the risk of unsustainable natural resource use to rural livelihoods, health and welfare, few – if any – concrete policy actions have followed (ADB 2008). Similar findings apply to the GMS environment ministers' meetings. The second meeting in January 2008 in Vientiane addressed "sustainable natural resource use for economic competitiveness", but – with regard to trade – did not go beyond the general notion of the necessity of "mainstreaming environment to core economic sectors investments such as transport, energy, tourism and trade sector". It is telling for the relative political importance of environmental concerns that, except for Cambodia, none of the member states was represented by its respective minister of the environment (or equivalent); senior officials attended instead (GMS EOC 2008).

Apart from the ADB funded GMS Programme, the Mekong River Commission (MRC) has a role to play in the sustainable management of the subregion's resources. The MRC was founded in 1995 as a successor to the then waning Mekong Committee, which had been created in 1957. Membership of the MRC comprises Thailand, Lao PDR, Cambodia and Vietnam. The foundation of the MRC was a departure from the economic rationale of the Mekong Committee. While the latter had planned grand water construction schemes, the MRC in the first decade of its existence was more cautious. Particularly under its second chief executive officer (CEO), Joern Kristensen, the MRC Secretariat focussed on environmental protection and viewed the construction of dams for energy development and large scale irrigation in a critical light. However, it should also be noted that Kristensen rejected the views of NGOs who argued against the MRC's approach to developmental projects (Hensengerth 2009: 329). A former senior MRC official is sceptical of the MRC's environmental agenda:

The MRC's budget for the environmental programme was USD 20 million over a period of five years. But the programme did not really



look at the implications and environmental cost of dam building. The MRC has not prevented a single dam from being built. One has to keep in mind that the building of hydropower plants requires a huge energy input, significantly more energy than a plant will produce for many years to come, [and] maybe more energy than is generated during the dam's average lifetime of 20 years. The MRC's main problem is the lack of trust and transparency in relations among members (Author interview, Phnom Penh, February 2010).

While, on balance, there seems to be little evidence of the effectiveness of multilateral efforts at balancing economic interests and environmental concerns in the GMS, the pressure on policy makers has been growing. This is mainly due to pro-environment NGOs in the Mekong subregion, often allied with interested academics, which have grown in size and influence over the last two decades. Businesses, especially those dependent on customers in developing countries, have also emerged as agents for change. Many European and North American multinationals are now required by their shareholders to meet quality standards similar to those in their home countries (Kennett and Steenblik 2005).

It can generally be concluded that NGOs mainly – and often only – get involved in the environment-trade agenda if the initiative is backed up by donor interests and funding. This is particularly the case for projects that focus on organic agricultural produce destined for the European market. Cambodia provides a good example of this. In collaboration with the Cambodian Centre for Study and Development in Agriculture (CEDAC), an NGO working in the area of rural development, the German donor organisation Deutscher Entwicklungsdienst/ German Development Service has supported farmers to produce high quality rice. Applying a method called “systematic rice intensification”, the project has enabled farmers in the country to produce their rice without agrochemicals. The project is focussed on quality improvement and the support of farmers and their associations in the marketing and certification of the rice. While CEDAC first concentrated on supplying rice to the Cambodian market, the first shipment of certified organic rice was exported to the EU in early 2010.

In this and other cases, important results concerning trade and environment at a micro level have been achieved with relatively small amounts of donor funding, for example from the Small Project Facility of the European Commission (EC). The director of the Centre for Marinelife Conservation and Community Development (a beneficiary of the Small Project Facility project on empowering women, improving lives and conserving the environment through community based ecobusiness in coastal Vietnam) gave the following example:

What we primarily need is funding for projects that provide education and training to better the livelihoods of people, such as fisherwomen in our case, who do not get a lot of attention from the government. If fisherwomen want to engage in the ecoshrimp business, for instance, they need to know about the standards and regulations that apply to ecoshrimp – and agricultural products in general – so that that these products can then be successfully exported to the EU and other markets. Without the appropriate funding for training, these fisherwomen are likely to fall back into poverty (Author interview, Hanoi, March 2009).

Overall, it was not the ADB but the EU (or more precisely ODA provided by the European Commission/EC), the United States Agency for International Development (USAID), other Organization for Economic Cooperation and Development (OECD) donors, and the United Nations Development Programme (UNDP) who have effectively contributed to the strengthening of the nexus between environment and trade (and investment). This has been particularly successful in instances when national pro-environment legislation, policymaking and private sector initiatives could be directly linked to trade facilitation and export promotion, as already shown above in the case of organic export agriculture.

For example, according to an independent evaluation of the Evaluation of the European Commission's Cooperation with Thailand, the EC's environmental interventions in Thailand have successfully contributed to the linking of global environmental objectives with national and local environmental policy priorities. EC-sponsored environmental projects helped Thai policymakers to tackle environmental policy issues concerning the sustainable use of natural resources, e.g. fisheries, forests or energy. European interventions have also generated a range of institutional capacities for local co-management of environmental issues. This has resulted in improvements to institutional capabilities for the effective co-management of resources, as well as new knowledge relevant to the implementation of environmental policy (Evaluation for the European Commission 2009).

In Vietnam, to give a second example, the EU funded Multilateral Trade Assistance Project has contributed to some progress in the development of a socially and environmentally sustainable trade and economic integration strategy as part of the country's economic policy reform process, *inter alia* through enhanced local institutional and human capacity in trade issues, as well as legal advice and training. For example, several studies and workshops have helped Vietnamese government stakeholders to build capacity on trade-environment related commitments and obligations, laws, and regulations and identified inconsistencies between current laws/ regulations

and commitments under multilateral economic agreements and WTO obligations. The project also focussed on economic implications of environment-trade related compliance and identified key export industries to which environment-related trade measures are most relevant. Furthermore, it provided an overview of the current and anticipated future problems in the area of environment-related trade measures (EU and Socialist Republic of Vietnam 2004; 2008).

## Conclusions and Outlook

Beyond official government rhetoric and – often unenforceable – first attempts at creating legislative frameworks there is little evidence of any substantial initiatives to mainstream environmental issues into trade policymaking and to reconcile economic growth and environmental protection in ASEAN and in ASEAN-China relations. While the ASEAN China Free Trade Area and other mechanisms to increasing the trade between ASEAN and China, for example energy trade within the GMS framework, are not oblivious of explicit environmental agendas there is no conclusive empirical evidence to suggest that effective measures were undertaken in compliance with the stated intentions. The ASEAN Agreement on Transboundary Haze Pollution – which could potentially be extended to ASEAN-China relations – is a case in point. Signed in 2002, it was still not ratified by the Indonesian House of Representatives by mid-2011 (Indonesia is the only country yet to ratify the deal), mainly because of Indonesian opposition linked to vested interests in the economy of Sumatra and Borneo, and therefore cannot be implemented. If put into force, the agreement would be the first legally binding ASEAN regional environmental accord and also the first in the world that binds a group of contiguous states to tackle haze pollution resulting from land and forest fires through, *inter alia*, strict regulations, heat-seeking satellites and firefighting training.

The policy nexus between the environment and trade is gradually gaining prominence, but China and ASEAN have only recently made attempts to take charge of this process, which so far has almost entirely been steered by foreign donors. Foreign donors' interests and interventions are clearly the push factors in the balancing of economic growth and environmental protection. The European Commission is spearheading the process and contributed more than EUR 60 million to projects with a direct or indirect environmental focus in ASEAN between 1997 and 2007. Environmental sustainability is a key domain in the EU's strategy in Asia in general and South-east Asia in particular. Among other OECD donors, Canada has had the clearest pro-environment approach. Over the years it has extended devel-

opment cooperation to ASEAN in the areas of forestry, human resources development, fisheries, energy, agriculture, transportation and communication, as well as science and technology and the environment. The mainstreaming of environmental issues into trade has been particularly successful in cases when donors could offer clear incentives, e.g. EU market access. At the same time, trade is driven by global economic forces and national economic imperatives. Multiple agents – bilateral agencies, the WTO, international financial institutions, private firms, national policymakers and NGOs – pursue their separate policy agendas. Yet, there is a lack of coordination among foreign donors and other agencies in the promotion of a pro-environment agenda in trade.

The role and impact of transnational civil society groupings and initiatives in addressing environmental concerns has been growing. An example is a proposal by the ASEAN People's Forum (APF), to establish a fourth official pillar of inter-governmental cooperation in Southeast Asia, the ASEAN Environmental Pillar – in addition to the existing economic, socio-cultural, and political pillars (*Philippine Inquirer* 2010). ASEAN policymakers view this development with concern, however, particularly as it might give other advocacy groups new ideas about the creation of yet other new pillars of cooperation.

In sum, there is no shortage of regional policy initiatives and visions for stronger environmental considerations in trade and investment deliberations, most prominently in the Fourth ASEAN State of the Environment Report 2009 and the Roadmap for an ASEAN Community 2009–2015 and the newly created China-ASEAN Environmental Cooperation Centre but enforceable policies for reconciling trade and the environment do not exist. The reference to the environment in the ASEAN Economic Community Blueprint is very weak. Since ASEAN has yet to strengthen linkages between trade and environmental protection in intra-regional relations, it is no surprise that the environmental agenda is also only at its infancy stage in the group's trade relations with China which is not known as a big promoter of environmental causes either despite recent diplomatic initiatives. Foreign donors cannot fill the existing gap if national and regional support is lukewarm.

Furthermore, donor driven initiatives and projects regularly overestimate the receiving states' implementing capabilities. Regional integration and harmonization in the field of tariffs, standards, intellectual property, foreign investment regimes and, not least, environmental regimes have been advancing slowly. The basic conditions for creating common regimes or even for harmonizing national legislative frameworks and enforcement practices among ASEAN countries and likewise in ASEAN-China relations are not

yet in place, given considerable disparities in technical and institutional capacities, economic development and political priorities. Therefore, until the level of regional infrastructure is more or less equalized, national capacity building must be considered as a basic condition for extending regional cooperation. As one senior officer at the ASEAN Secretariat put it, “the member states are the bottleneck” (Author interview, Jakarta, October 2008). While the donor commitment to ASEAN is certainly appreciated in the region, it also poses question of ownership and coherence. A high ranking official asked, “How can we coordinate all these activities? In reality, it’s difficult to establish regional ownership. We simply try to follow what the donors do” (Author interview, ASEAN region, October 2008).

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