

**Report on a Conference on
International Trade and the
Environment**

9-10 April 1999, Hanoi

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I. Introduction

On 9-10 April 1999, a Conference on International Trade and the Environment was convened in Hanoi by the Ministry of Science, Technology and the Environment (MOSTE), with the support of the SEMA project. IUCN – The World Conservation Union played an active role in the preparation of the Conference. The Conference was open to the public and was well-attended. Its purpose was to raise the level of awareness and knowledge of the complex issues of trade, environment and sustainable development, and to explore them in the context of Viet Nam.

Viet Nam's economy is gradually integrating into the world economy. Viet Nam has joined regional economic organisations such as the Association of Southeast Asian Nations (ASEAN) and the Asia-Pacific Economic Co-operation Forum (APEC), and is currently negotiating accession to the World Trade Organisation (WTO). At the same time, environmental protection has been declared an indispensable part of socio-economic development policies and plans for government agencies at all levels. This orientation was confirmed by directive number 36 (June 1998) of the Politburo of the Central Standing Committee of Viet Nam's Communist Party on "strengthening environmental protection in the process of industrialisation and modernisation of the country".

In integrating into the global market economy, it is very important to avoid policy fragmentation – which can be a source of negative externalities. Indeed, the difficulties are compounded by the fact that government ministries in most countries operate on different tiers – finance is a first class ministry, trade is second class, and environment is third class. This means that co-ordination of the policies of different ministries is very difficult – they are simply operating at different levels. This needs to be changed in order to achieve policy coherence at the national level.

If Viet Nam can successfully co-ordinate its trade and environment policies while integrating into the global economy, the current climate offers some special opportunities. Although the WTO has, up until the present, not made progress on environmental issues, increasing political pressure means that they are going to have to start moving more rapidly on these issues. This has implications for Viet Nam in its accession negotiations. Furthermore, there is increasing pressure from consumers in the developed world for environmentally-friendly production processes. Viet Nam is uniquely poised to take advantage of this by incorporating environmentally friendly processes early and thus gaining market share. This is especially true if Viet Nam manages to take advantage of niche market opportunities.

At the Conference, some points were raised for special attention in Viet Nam. These include: the need for policy co-ordination; the need to incorporate international product standards to gain market access, the particular role of the ISO 14000 series standards in this context; the special attention which should be afforded to small-and medium-sized enterprises in Viet Nam; and information needs.

II. The Vietnamese Situation

In the Vietnamese context, it needs to be established first what are the likely effects on the economy of increased participation in regional and global trade regimes of ASEAN, APEC and the WTO. Second, how will the economic effects impact on the environment? Such research can be used to make a detailed policy analysis to develop the optimal economic and environmental policies that will be required to achieve both economic growth and environmental protection. Furthermore, it needs to be established what the economic impacts of signing onto different multilateral environmental agreements (MEAs) will be.

International trade effects on the environment can be both negative and positive. They operate at local, regional, national and international scales. They tend to be long term effects that occur indirectly – international trade has effects on the economy which effect the environment. For this reason, to properly consider the effect of international trade on the environment, it is necessary to examine both economic as well as environmental policies. Effects of international trade on the environment can be put into four categories: scale effects, structural effects, technology effects and product effects.

Since economic reforms (*doi moi*) began in 1986, Viet Nam has made significant progress in the transition from a centrally-planned economy to a market economy. Between 1985 and 1994, GDP rose 167% in real terms. The value of foreign trade rose from \$5.1 billion in 1990 to an estimated \$20.6 billion in 1997. Annual foreign direct investment rose from \$288 million in 1988 to \$2.2 billion in 1997. In July 1994, Viet Nam was granted observer status to the General Agreement on Tariffs and Trade (GATT), and in early 1995, Viet Nam applied formally for WTO membership. Viet Nam also became a full member of ASEAN on 28 July 1995 and became a member of APEC in November 1998.

Scale effects:

In the absence of corrective policies and control, the increased levels of economic activity due to trade can be detrimental to the environment. Viet Nam's industrial production grew in real terms by 65% between 1990 and 1994. The fastest growing sectors were chemicals, fuel industries and electricity, electronic industries and construction materials. In the absence of new controls, the World Bank estimates that toxic wastes in Viet Nam will increase by a factor of 3.8 between 2000 and 2010 (14.2% annually). Vietnamese integration into the world economy has been taking place while its legal framework is not complete. Enforcement of existing regulations has not been easy. Also, economic tools like taxes and fees to punish polluters have been difficult to put into place.

Structural effects:

Trade liberalisation and economic expansion generally are accompanied by changes in an economy's structure and in the spatial distribution of economic activity. Furthermore, many analysts have maintained that trade liberalisation will lead to a long term change from polluting industries to those that are more environmentally benign. However, for Viet Nam indications are that such changes will not take place,

at least in the medium term (10-15 years). In 1998, most exports were raw materials and semi-finished products – only 26% of exports were products.

Technology effects:

Other potential positive effects of trade liberalisation include improvements in technologies for processing, waste management and pollution abatement as a result of greater access to new technology. However, the flip-side of this is that as industries face increasing competition from other countries, they may attempt to cut costs by importing cheap, inefficient technology. Some anecdotal evidence of this phenomenon is available in Viet Nam. There is a need for more stringent inspection of imported equipment, more detailed development conditions based on environmental impact assessments (EIAs), as well as life cycle analyses and waste audits of new plants to ensure minimisation of pollution.

Product effects:

Process and production methods are becoming an increasingly important environmental concern. There is an increasing political and consumer pressure in Europe and North America to restrict trade in products with significant environmental impacts from their production. For Viet Nam, there is a need for information, capacity building and the ability to influence decisions on international standards and systems of certification. It is in the interest of the developing countries to demand harmonisation of certification and standardisation schemes, as well as transparency in the development of standards and consultation on how to integrate them into their local practices.

III. Policy Co-ordination in Viet Nam

At the international level, Viet Nam will require a policy on multilateral environmental agreements and trade. At the national level, Viet Nam should actively continue to promote that agencies work together to consider environmental factors in economic policy, and economic factors in environmental policy. To facilitate such policy co-ordination, it would be opportune to establish a focal point on trade and environment in the government structure, as well as an effective inter-agency network or task force. The Government should develop a strategy to ensure early identification of key areas and to allow for better planning in trade and environment. Furthermore, capacity development is imperative. In particular, in the academic and government sectors a focus should be on developing indigenous research capacity on trade and environment issues.

With the assistance of international organisations, relevant Vietnamese agencies may wish to study further how WTO rules might affect Viet Nam's capacity to enact strong national social, health and environmental law. The Ministry of Trade could use this when negotiating WTO accession to protect and expand Viet Nam's market access in environmentally-sensitive sectors. It would also allow MOSTE to ensure that, to the extent possible, environmental regulations are consistent with WTO rules and preserved from later challenge.

Similarly, the Vietnamese Government may also wish to examine how the proposed Millennium Round of trade negotiations may affect Viet Nam's ability to safeguard

health and the environment. Many new rules on issues including investment, government procurement, services and agriculture are proposed, and would be binding on Viet Nam as a new member of the WTO. Viet Nam must understand the implications of these issues as they develop and defend its interests in bilateral discussions, and at the WTO upon accession.

As with integration into the global trade regime, there are risks associated with the integration into regional agreements. For example, the poorer countries of such a group may be at an increased risk for the receipt of inappropriate technology and products. At the same time, there are opportunities associated with such agreements which should be taken advantage of. Viet Nam should continue to take advantage of the opportunities provided by ASEAN, in terms of information and experience sharing. In particular the existing mechanisms for harmonisation of standards might be useful, especially in the area of ISO 14000 Series certification. Intra-ASEAN investment should also be encouraged.

IV. Environmental Standards and Market Access

Viet Nam needs to broaden its contacts with foreign standardisation agencies and increase its understanding of the requirements and criteria of different standardisation schemes. Only with a proper understanding of and access to information on standards and criteria in other markets, will Viet Nam be able to upgrade their production technology in the necessary way. Developed countries and international agencies should disseminate and clarify different environmental requirements in order to create the proper conditions for developing country industry to respond appropriately. Greater transparency will also allow developing countries to gain better market access, as well as to create more balanced international commercial arena.

Domestically, standards for import and export need to be set in a way that allows proper monitoring, and resources should be made available to enforce the capacity to do so. Furthermore, it is imperative that Viet Nam link systems of foreign direct investment approval to systems of environmental compliance. Opportunities to leapfrog technology should be emphasised – the private sector will be very important here. However, for technology transfers of this sort to be viable, there needs to be a clear long term commercial interest.

Currently, the bulk of Viet Nam's exports are farm products and labour intensive products. Most imports are machinery or materials for the production of consumer goods. Viet Nam does not yet have the capacity to manufacture cars, motorbikes or refrigerators. The high levels of imports of environmentally-hazardous goods underline the need for strict import policies. Current import-export policies, while banning the import-export of goods which might adversely affect national defence, security, human health and the existence of flora, fauna, culture, education, arts and archaeological works, do not cover specific provisions on environmental protection. These policies currently fail to meet the criteria set in some international agreements, including the UN Consolidated List, the Basel Convention, and so forth. Furthermore, apart from the lack of non-tariff measures, the appropriate tax levels for environmentally-unfriendly products have not been worked out.

V. The ISO 14000 Series in Viet Nam

The Vietnamese government policy has been to take sustainable development as the foundation for its development strategy – with particular attention to combining economic development and environmental protection. However, aside from macro policies, it is necessary to take concrete and effective measures to implement this strategy. The application of the ISO 14000 series could be a significant step in this direction. Furthermore, although its application will be challenging, the ISO 14000 series will provide businesses with an advantage on the international market and will improve their competitiveness.

Advantages which might be obtained through the application of ISO 14000 series standards include favourable prospects for bank loans and financial assistance, increased share value (especially important in privatisation), overcoming trade barriers and increased access to markets with a growing demand for environmentally-friendly products. However, the cost of certification may be a constraining factor – particularly for companies which do not already have a management system in place, do not abide by current environmental regulations and will have to depend on the services of consulting firms. Furthermore, obtaining the necessary information on relevant regulations and other legal matters may be difficult in Viet Nam.

Viet Nam faces difficulties in applying environmental management systems (EMSs) in general, and the ISO 14000 series in particular. Environmental management has generally not been regarded as a systematic activity in the management of Vietnamese enterprises to date. Existing enterprises are struggling to survive in the increasingly competitive market. Management and technological skills for environmental management are generally very limited, as are budgets to apply for EMSs. However, awareness is rising in all sectors, and the government has also taken measures towards a stricter legal framework for environmental enforcement, particularly through the 1993 Law on Environmental Protection. Viet Nam should conduct a review of its existing environmental laws to ensure that its regulations and specifications are compatible with a voluntary mechanism like ISO 14001 which may involve different monitoring practices.

On the initiative of Singapore, a consulting network has been established in the ASEAN countries on issues relating to the ISO 14000 series standards. This network aims at stronger participation in the development and application of EMSs through the participation in ISO/TC207 activities, as well as information exchange and experience sharing in the development, application and certification of ISO 14000 EMSs in each country (Laos, Cambodia and Brunei are not yet ISO/TC207 members).

Currently, the Viet Nam General Department of Standardisation, Metrology and Quality Control is co-ordinating with the National Environmental Agency to implement a project on the development and application of standardised environmental management measures, particularly in the area of environmental labelling. The strategy ranges from training and capacity building in application of ISO 14000 series standards, to developing a pilot programme for application, to the development of a support infrastructure for application and certification of an EMS in Viet Nam (including training consultants, developing Vietnamese standards, establishing certification facilities, etc.). 13 enterprises are currently part of this pilot

programme. Apart from public pressure, market competition and legal regulations on environmental protection are making EMS application increasingly significant in Viet Nam's policy.

Third-party certification is really needed to win the type of market credibility that will confer advantages on Vietnamese enterprises. However, experience with ISO 9000 has shown that the lack of necessary facilities in developing countries may reduce the opportunities to get certification. Furthermore, the cost of ISO 14000 certification is likely to be higher than for ISO 9000 because the 14000 standards are more complicated, and there is a shortage of experts. The costs of certification granted by domestic agencies in developing countries are likely to be lower, but the international value of certification is dependent on the credibility of the registration agency. For this reason, it is also important for Viet Nam's accreditation agency to carefully monitor the activities of domestic certification companies, as these develop. Viet Nam might consider signing the International Accreditation Forum's Memorandum of Understanding. A lack of transparency in the accreditation process can cast doubt on the credibility of a domestic certification industry.

VI. Small- and Medium-Sized Enterprises

Care should be taken in these initiatives to properly account for the small- and medium-sized enterprises (SMEs), who will have particular difficulty implementing such systems. Poverty reduction is still the primary goal of the Vietnamese government. Implementation of existing environmental laws is difficult – especially as there is often differential implementation and enforcement of them by different government agencies at different levels. SMEs suffer from particular difficulties implementing environmental regulations. They suffer from a capital shortage, material shortage, out-of-date machinery, largely unskilled workers and weak management capability. To enable SMEs to come up to speed several types of measures are needed. These include: (1) education and capacity building; (2) advice on environmental laws and regulations, and on appropriate technologies; (3) assistance in compliance; (4) better information dissemination to enterprises; (5) consultants to SMEs; (6) increased technical assistance; and (7) incentives for environmental compliance.

In the case of ISO 14000 series standards, application in SMEs will depend very much on the demands of large enterprises on their suppliers. Large organisations might be encouraged to support SMEs in getting certified. Also, SMEs in similar sectors or the same geographic area might co-operate with each other in identifying environmental impacts caused by their activities and exchange information on legal matters. Co-operation in training personnel might also be considered.

VII. Information Needs

In Viet Nam, one of the major impediments to successful co-ordination and implementation of trade and environment policies is lack of information at all levels. Access to information needs to be improved. First and foremost, a documentation centre on trade and environment should be established for the use of policy-makers

and other interested parties from all relevant sectors. This centre should include effective internet access to keep abreast of this dynamic area of information.

Furthermore, awareness-raising on environmental issues is very important for producers. Producers make the decisions on where and what to invest in, and deal directly with international markets. If they are aware of requirements for environmental protection they will invest accordingly and make better decisions on technologies and management practices. As discussed above, the information needs of SMEs are particularly acute.

Community awareness is also important. With proper knowledge, consumers will eventually change their habits and consume in a more eco-friendly fashion. Producers will then be driven to upgrade their environmental standards to meet consumer demand.