



The Environment, Globalization, and Natural Assets

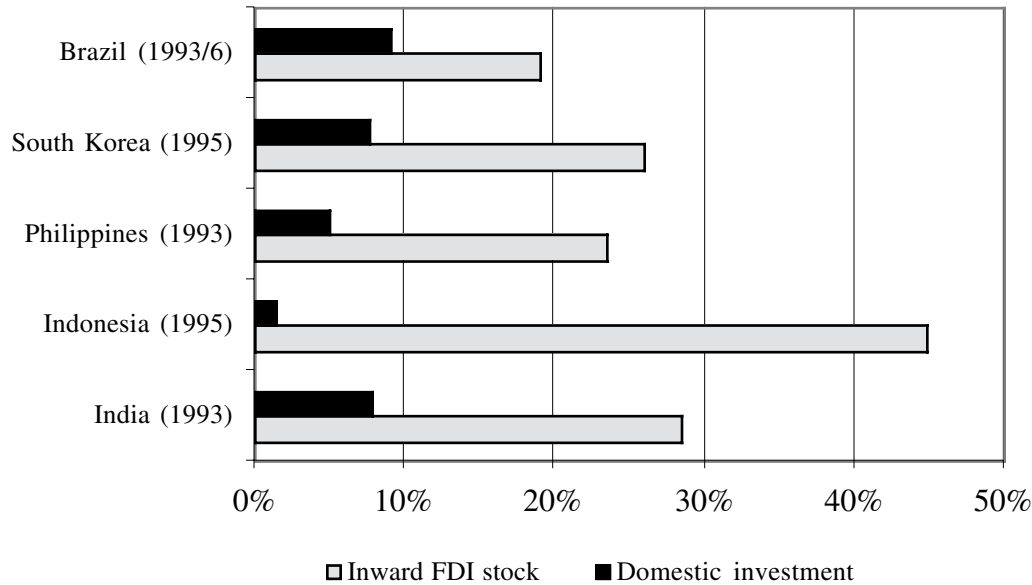
As economies grow more integrated, the relationships between different [ecosystems](#) and economic activities become more closely intertwined. Newspapers read in Japan might depend on the maintenance of forests in North America. The methods of producing the coffee sipped in Paris cafés impacts natural resource use in Colombia or Kenya. Increasingly, economic activities in one part of the globe have environmental repercussions that can be felt around the world.

Take the example of [foreign direct investment](#), or FDI for short. For many developing countries, an inflow of investment from abroad can mean more jobs and an expansion of the domestic economy. However, despite these positive effects, FDI frequently spells danger for domestic ecosystems. On average, high-polluting industries – such as chemicals, pulp and paper, petroleum, and basic metals – represent a larger portion of foreign investment than these industries represent in domestic investment. Since these dirty economic activities take place in far-away places, investors often have less concern for environmental quality than would be the case if the pollution were happening in their own backyards.

Competition among countries for foreign investment also jeopardizes environmental sustainability. In order to attract a bigger share of FDI, many countries give investors economic incentives, such as [tax holidays](#) or a reduction in government regulations. In this context, rules that protect the environment can be seen as a barrier to profitability. Deregulation might be good for foreign investors, but it may place the domestic environment at risk.

Is there a way to improve standards of living and protect the environment at the same time? One strategy is to change the way we think about the relationship between the economy and the environment. Environmental resources – such as land, open space, clean water, forests, and ecosystems – can be thought of as [natural assets](#), a foundation of environmental wealth upon which a well-functioning economy depends. Just as traditional sources of economic growth depend on building a stock of various types of assets (houses, computers, machines, finance, and education), sustainable development depends on building natural assets as an important component of a strategy for community development.

Pollution Intensive Industries as a Share of FDI and Domestic Investment



Source: UNCTAD. *World Investment Report 1999*, Table X.3.

As with other forms of wealth, the distribution of natural assets throughout the world is highly unequal – just think about current patterns of land ownership or who has access to natural resources. However, recent research has shown that improving community access to natural assets can help fight poverty, raise living standards, and protect the environment – something that a narrow focus on attracting foreign-owned assets, such as FDI, fails to accomplish. This isn't to say that other economic assets, such as productive investments and finance, don't matter. They do. Nevertheless, paying more attention to ways of building new natural assets, redistributing existing ones, or democratizing access to resources can be an effective tool for human and environmental development in today's globalized economy.

Sources:

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