

XI ECOECO

VII Congreso Iberoamericano
Desarrollo y Ambiente

XI ENCONTRO NACIONAL DA ECOECO
Araraquara-SP - Brasil

FLAGSHIP ENVIRONMENTAL REGULATION AND EXTERNAL FINANCIAL FRAGILITY: IS
AMAZON CONSERVATION A BARGAINING CHIP?

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Flagship environmental regulation and external financial fragility: is Amazon conservation a bargaining chip?

To what extent do non-domestic factors affect the management of forest resources?

The literature on the political economy of environmental regulation has approached this question from the perspective of a bargaining process between interest groups, where organized pressure groups influence policy through lobbying¹. This body of literature, however, overlooks the possibility of domestic forces responding to foreign interests even in the absence of targeted lobby. For example, in the context of balance of payments crises governments often see the need to provide signals of commitment to economic stability. These normally come in the form of fiscal or monetary policy, but they may also involve building up foreign legitimacy by way of increasing regulation on the environment.

Are shifts in domestic environmental regulation associated with external economic fragility? The objective of this proposal is to elucidate the determinants of shifts in conservation policy in the Brazilian Amazon. The hypothesis is that some types of environmental regulation are used by the Executive branch as flagships of environmental stewardship to build up foreign legitimacy in periods of external economic struggle.

An example of such bargains between flagship environmental regulation and financial markets are *debt-for-nature swaps*, where countries struggling to service their debt offer resource conservation measures in exchange for debt relief (Deacon and Murphy, 1997). A specific example from Brazil is the demarcation of Yanomami indigenous lands, in the border between Brazil and Venezuela, as a response to pressure exerted by NGOs on multilateral financial institutions (Albert, 1992; Wade, 2011). Conversely, in periods of external bonanza the government reduces conservation constraints to gain legitimacy against domestic interest groups. For example, the forest code legislation has been eased from the middle 2000s onwards, in tandem with a period of rising external financial strength.

Policy relevance. The question whether governments may stiffen environmental regulation as a way of gaining foreign legitimacy against financial markets is of immediate relevance for those interested in the drivers of environmental policy. Instability in the external accounts has been blamed for causing underdevelopment, but it may also have political economy effects

¹ For example: Aidt (1998), Conconi (2003), and Oats and Portney (2003) on theoretical contributions. Binder and Neumeyer (2005) and Fredriksson et al. (2005) on empirical contributions. Cole, Elliott and Fredriksson (2006) on the role of multinational corporations.

on the environment. Understanding this link should be important for decision makers trying to balance environmental conservation and economic development.

Study design. This research will use the Semi-Arid region in Brazil as a counterfactual to the effect of foreign constraints on environmental policy in the Amazon. The Semi-Arid is a highly biodiverse region and a delicate ecosystem (Leal et al., 2005), yet subject to weaker environmental regulation than the Amazon. If shifts in environmental regulation were unrelated to external economic constraints, then those shifts should go approximately in the same direction in the Amazon as in the Semi-Arid irrespective of external economic fragility.

The research will compare the evolution of forest conservation regulation in the Amazon and in the Semi-Arid since the middle 1990s, and contrast that with the evolution of an indicator of financial fragility. The focus will be the forest code, a piece of legislation that has been subject to a number of discretionary changes by the Executive branch in the last two decades. Conservationist shifts in the forest code in the Amazon are hypothesized to be flagships of environmental stewardship. These will be documented and compared to shifts in other types of environmental regulation that are hypothesized not to provide short term legitimacy gains, such as (non-discretionary) laws passed in the Legislative branch that create conservation frameworks with a long term character (for instance, the National Environment Fund, FNMA, was created in 1989 by a Federal law and its resources are invested in actions such as territorial planning and management, and water conservation).

The methodology consists in three steps. First, a survey of the relevant environmental regulations in Brazil will be carried, and the resulting pool of regulations will be classified according to the flagship / non flagship distinction. Second, a detailed qualitative assessment of the hypothesized causal mechanism will be undertaken. This will take the form of a historical description of the evolution of the relevant environmental regulation in the Amazon and in the region chosen as counterfactual. For the historical assessment, a literature review will be used as well as interviews with relevant informants in Brazil. Third, a comparative case study framework will be employed to undertake a qualitative assessment of the hypothesis above. The result of this exercise should be a first approximation to the effect that foreign factors can have on domestic natural resource regulation.

Data Sources

Financial fragility: the *International Country Risk Data*, by the PRS Group, have already been obtained (Howell, 2011).

Legislation survey: archival research on Brazilian legislations.

Interviews: these have already been conducted.

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