

# Case Study: Environmental Effects of International Trade

Is globalization bad for the environment? Trade has some of its effects through the channel of accelerating economic growth, because trade contributes to growth analogously to investment, technological progress, and so on. Although growth is bad for air and water pollution at the initial stages of industrialization, later on it reduces pollution as countries become rich enough to pay to clean up their environments.

The report *Environmental Effects of International Trade* considers whether globalisation has damaged environmental goals. Empirical studies of cross-country data generally find no detrimental effects of trade on some measures of environmental degradation such as local SO<sub>2</sub> (sulphur dioxide) air pollution, controlling for income. The evidence does suggest that trade and growth can exacerbate other measures of environmental degradation, however, particularly CO<sub>2</sub> emissions (carbon dioxide). Increasingly, people living in one country want to protect the air, water, forests, and animals not just in their own countries, but also in other countries as well. But no single country can address global environmental problems on its own, due to the free rider problem. While there is a role for unilateral actions on climate change, in the long term multilateral action offers the only hope of addressing the problem. The author recommends specific border measures to address leakage that need not necessarily violate the WTO or sensible trade principles.

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