Chapter 8

Impact of Trade in Class-A Environmental Products on Economic Growth and Environmental Quality: Simultaneous Equation Analysis in Developing Countries

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ABSTRACT

Openness to international trade enables several countries to access different markets. Similarly, the orientation of industrial productions towards ecological goods reinforces commercial activities and contributes to the improvement of environmental quality. The aim of this chapter is to estimate the indirect and the direct effects of trade in what the authors call “Class A” environmental goods on air quality for a number of developing during the period 2005-2015 (through environmental policy and income). Empirically, the study relies on the two-stage least squares (2SLS) and three-stage least squares regression analyses. For end-of-pipe (EOP) products in developing countries, neither direct nor indirect effects are identified on the reduction of pollution. For clean technologies and products, we can observe a global positive effect resulting from two positive indirect effects via environmental policy and income. In developing countries, it seems that trade in clean technologies and products (CTP) and in the OA product list generates an intensification of pollution through an increase in wealth and the adoption of a strict environmental policy (based on taxation).

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INTRODUCTION

The World Trade Organization (WTO) emphasizes the necessity of environmental goods trade liberalization in rich countries as well as in developing countries. For all these countries, there is a way to encourage environmental protection through the use of ecological goods and the strengthening of the economic fabric. In developing countries, domestic and foreign companies benefit from a cheaper production cost based on a cheaper labor. The WTO’s incentive to reduce import tariffs for environmental goods can play a significant role in encouraging business to protect the environmental quality. The reduction of tariffs encourages the imports of environmental goods and services, which in turn encourages firms to reduce pollution by benefiting from low production costs.

Reducing the costs of environmental protection products, services and technologies would encourage the governments to set up measures and programs in favour of the environmental protection. The promotion of the trade liberalization of new technologies and environmental goods favors the creation of new companies as well as new job opportunities in the domain of industrial ecology. The leading exporters of ecological goods are developed countries. They can also strengthen their economies and maintain a sustainable economic growth as far as low costs are only applicable in these countries. As stated in the work of Amwey et al. (2003), the advantages in the trade of environmental goods and services are more favorable in rich countries than in poor countries. In their work, they emphasize the importance of developed countries’ membership to the World Trade Organization. All these countries benefit from gains and profits realized through trade in environmental goods. This advantage can be explained by the easy access of WTO countries to all environmental goods and services, including in poor countries.

The tariffs related to the import of environmental goods and services are profitable for the countries that do not produce this type of goods and whose industrial system is not enough developed. Even if the import of environmental goods is costly for certain countries, these latter will encourage foreign direct investments (FDI) and the implantation of new multinational corporations. The growth of Foreign Direct Investments (FDI) contributes in this case to the improvement of the production structure through technological transfer and expertise.

In the United States, all the efforts and decisions in favour of the elimination of any obstacle hindering the commercial activities of environmental goods and services are made by the business owners who are holding an important share of industrial activities. All of these business groups propose special measures for the marketing of this type of goods.

The environmental damages are largely related to the type of use of environmental goods as well as to their recycling and to their destruction (final waste disposal).
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