

# ***ENVIRONMENTAL POLICIES AND TRADE: A COMPARATIVE ANALYSIS OF UNILATERAL STANDARDS & PROVISIONS IN PREFERENTIAL TRADE AGREEMENTS***

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## **Overview**

The adverse effects of trade and investment on environmental performance are well-documented in existing academic literature (for instance, see Esty, 2001; Acharyya, 2009; Lau et al., 2014). At the same time, the drive towards a greener economy is also facilitated by greater use of and reliance on environmentally sustainable goods and services, which is fostered by cross-border trade and investment.

Environmental policies affect environmental and economic dimensions of sustainability. Such policies include both environmental standards that importing countries impose on exports from partner countries and environmental provisions in preferential trade agreements (PTAs). The growing use of these policies (for instance, see Berger et al. 2017) makes it imperative to understand the role of these preferential provisions and unilateral standards on trade. At the same time, there is a need to understand the interplay between PTAs and environmental or climate-related provisions, which can also serve as disguised non-tariff barriers to trade.

## **Research objective and contribution**

Controlling the effect of development assistance allocated to climate change objectives, green investment, and remittances, we examine the impact of different environmental policy measures on international trade in a structural gravity framework. We provide comparative analysis along multiple dimensions by (i) looking at the effect of "clean" vs "dirty" goods vs services and (ii) considering both environmental standards and environment-related provisions in PTAs. Existing work has studied some of these relationships separately (George and Yamaguchi, 2018; Brandi et al., 2020; Hoekman et al., 2023), but they have not accounted for the role of other bilateral trade determinants. The major contribution of our analysis is to explore all these relationships together in a structural gravity framework and account more fully for the impact of observed and unobserved determinants of bilateral trade in environmental goods and services.

## **Methodology and Key results**

Panel data analyses have been done for the countries involved in trade-related environmental provisions. The structural gravity model has been used to analyse the effects of environmental provisions on trade.

Both environment-related PTA provisions and unilateral environmental standards are found to enhance green trade and restrict trade in dirty goods and services in most cases. In general, as the literature suggests, such measures have affected developing and underdeveloped nations in a skewed manner.

## **Conclusions**

Even though the use of environmental provisions in trade agreements and unilateral environmental standards is increasing rapidly, problems associated with climate change and global warming are worsening. It is, therefore, worth examining whether these policies restrict trade in "dirty" products and facilitate green trade or if they only perform protectionist roles. There is limited research on the trade effect of environmental policies, and existing analyses do not segregate clean and dirty goods and services. Moreover, the use of non-economic provisions in PTAs is only beginning to gain traction in academic literature. Studying these relationships and properly accounting for the effect of other bilateral determinants on trade would therefore, add value to extant work on this subject.

## References

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