

THE ENVIRONMENTAL EFFECTS OF INTRA-INDUSTRY TRADE IN THE SAARC REGION

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ABSTRACT

In the setting of globalization, the rising importance of international financial institutions and international relations as well as the emergence of environmental issues has inspired a new sense of political and economic interaction. Owing to these interactions, mode of trade has changed and it has resulted in the world trade reforms. Therefore, trade of differentiating goods is being appreciated and encouraged in developing economies. In the context of South Asian Association for Regional Cooperation (SAARC), the intra-industry trade is increasingly replacing inter-industry trade. The environmental effects of the aftermath of expansion in intra-industry trade i.e. scale effect, selection effect and technique effects in the SAARC region are to be assessed in this study. The overall results of this study indicate that if intra-industry trade is expanded, it yields positive impacts on the environment. At the one hand, the disintegration of trade induced environmental effects, implies that the scale effect is hazardous for the environment. On the other hand, the trade induced selection and technique effects are beneficial for the environment in the case of SAARC region.

Keywords: Intra-Industry Trade; Environmental Effect; SAARC.

1. INTRODUCTION

The environment is becoming an important issue in international trade, while trade liberalization is creating issues that are concerned with both trade and the environment. The pertinent questions are whether the resulting trade expansion pollutes the environment more or less than before? Does an emphasis on economies-of-scale in trade liberalization policies have triggered countries to evaluate their pollution emission? Trade expansion may have direct as well as indirect trade-induced environmental effects. The relationship between trade and environmental quality is ambiguous due to the structure of developing economies; sometime it is beneficial in the short run but harmful in the long run or vice versa (Cosbey, 2008). The debates on the international trade and environmental sustainability have generated more heat than light; trade liberalization has affected both trade and environment.

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1 Demand for pollution is from producers for producing goods while supply of pollution is from