

Author's Accepted Manuscript

On the Environmental Consequences of Intra-Industry Trade

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www.elsevier.com/locate/jeem

PII: S0095-0696(16)30553-8
DOI: <http://dx.doi.org/10.1016/j.jeem.2016.12.006>
Reference: YJEEM1996

To appear in: *Journal of Environmental Economics and Management*

Received date: 11 April 2015

Cite this article as: Jayjit Roy, On the Environmental Consequences of Intra Industry Trade, *Journal of Environmental Economics and Management* <http://dx.doi.org/10.1016/j.jeem.2016.12.006>

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December 21, 2016

Abstract

In the trade and environment debate, the relevance of examining the impact of a location's intra-industry trade (IIT) on environmental quality cannot be overemphasized, in part, due to the increasing prominence of such trade and the paucity of related empirical evidence. Although existing studies largely indicate overall trade to be pro-environment, the consequences of IIT may differ owing to greater varieties of intermediate and final goods, easier technology diffusion via trade in similar goods, productivity gains from within-sector reallocations, and increased innovation. However, identification of the causal effect is plagued by the potential endogeneity of IIT attributable to crucial unobservables and measurement error. In this light, utilizing an instrumental variables strategy and data on multiple environmental indicators from roughly 200 countries over 2000-2005, we investigate IIT's impact on the environment. To measure IIT, we rely on two indexes of within-industry specialization based on changes in and levels of sector-level trade. Regardless of the indicator of IIT or environmental performance, across several sets of instruments, we mostly find (i) IIT to benefit the environment, (ii) overall trade to be less pro-environment than IIT, and (iii) concerns over endogeneity to be relevant.

JEL: C31, F18, Q56

Keywords: Intra-Industry Trade, Environmental Quality, Instrumental Variables

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