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## Environmental Impacts of a North American Free Trade Agreement

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A reduction in trade barriers generally will affect the environment by expanding the scale of economic activity, by altering the composition of economic activity, and by bringing about a change in the techniques of production. We present empirical evidence to assess the relative magnitudes of these three effects as they apply to further trade liberalization in Mexico. In Section 1, we use comparable measures of three air pollutants in a cross-section of urban areas located in 42 countries to study the relationship between air quality and economic growth. We find for two pollutants (sulfur dioxide and "smoke") that concentrations increase with per capita GDP at low levels of national income, but decrease with GDP growth at higher levels of income. Section 2 studies the determinants of the industry pattern of U.S. imports from Mexico and of value added by Mexico's maquiladora sector. We investigate whether the size of pollution abatement costs in the U.S. industry influences the pattern of international trade and investment. Finally, in Section 3, we use the results from a computable general equilibrium model to study the likely compositional effect of a NAFTA on pollution in Mexico.



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