

# Tourism Infrastructure, the Environment, and International Trade

Takanori Shimizu\*

Hisayuki Okamoto\*\*

\* Graduate School of Accountancy, University of Hyogo

E-mail: tshimizu@acs.u-hyogo.ac.jp

\*\* Faculty of Human Health, Sonoda Women's University

E-mail: hokamoto@sonoda-u.ac.jp

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## **Abstract**

This paper presents a general equilibrium model of small open developing economy with pollution generated by tourism industry. The national government issues emission permit and constructs tourism infrastructure for tourism sector. We examine the effects of environmental regulation on welfare, production, and income distribution. If the elasticity of substitution in tourism sector is sufficiently small, environmental regulation paradoxically expands tourism sector and narrows domestic wage inequality even under constant tourism terms of trade. The tourism infrastructure enhances the possibility of welfare-improving environmental regulation under some conditions.

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