

Environmental Outsourcing

Matthew A. Cole¹, Robert J.R. Elliott¹ and Toshihiro Okubo²

¹ Department of Economics, University of Birmingham, UK

² Research Institute for Economics and Business Administration, Kobe University, Japan

Abstract

Recent years have witnessed a dramatic increase in the number of firms shifting stages of their production processes overseas. In this paper we investigate whether firms offshore the dirtier stages of production to minimise domestic environmental regulation costs – a process broadly consistent with the pollution haven hypothesis. We develop a theoretical model of environmental outsourcing that focuses on the roles played by firm size and productivity, transport costs and environmental regulations. We then test the model's predictions using a firm-level data set for Japan. We find evidence of an 'environmental outsourcing' effect although this is mitigated by transport costs and other factors related to dirty good production.

JEL: F18, F23, L51, L60, Q56, R3

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