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Environmental regulatory stringency and the market for abatement goods and services in China

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Highlights

- Addresses an eco-firm's output decision in response to an environmental policy.
- Links regulation stringency to abatement output through simultaneous mechanisms.
- The impact of regulation stringency varies between industrial sectors.
- An "output restriction effect" is found in the sewage treatment sector.

Abstract: We provide an examination of the linkage between environmental regulation stringency and the demand for and supply of abatement goods and services. To that end we construct a five-equation simultaneous model that links environmental regulation stringency to abatement output through various underlying simultaneous mechanisms. This system is then estimated using a panel of 679 eco-firms in 78 industrial Chinese cities during the implementation period of collection and use of pollution discharge fees (promulgated by the Chinese State Council) from 2003 to 2007. We find that higher fees are generally associated with higher abatement supply but for some industries – notably wastewater treatment – there is evidence of 'output restriction', meaning that higher charges lead to a reduction in supply for established firms.

Key words: Environmental regulation stringency; abatement market; China; eco-firms

JEL: J24; L60; Q56;

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