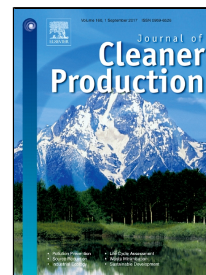


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Theoretical Analysis and Empirical Evidence from China

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Firm Size, Government Capacity, and Regional Environmental Regulation: Theoretical Analysis and Empirical Evidence from China

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Abstract: The size and number of firms in a region represent key characteristics of that regional economic ecosystem, but few studies have linked such characteristics with the stringency of local environmental regulation. In this study, we discuss the effects of local firm scale on environmental regulation and its mechanism, and the optimal strategic choices theoretically and empirically for environmental regulation in regions with different firm scale. We find that when government capacity is insufficient, regional environmental regulation will be relatively more stringent when dealing with fewer but larger firms because of the government scale effect. When government capacity is sufficient, firm size has no influence on environmental regulation. Our results are robust and offer insights for government decision makers to improve local environmental regulation efficiency.

Key words: environmental regulation; firm size; government capacity; scale effect; panel threshold regression

1. Introduction

Does a city with only a few larger firms have the same level of environmental regulation as a city with numerous small firms? If not, which city has more stringent regulation, and how does

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