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Innovation Suppression and Migration Effect: The Unintentional Consequences of Environmental Regulation

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Abstract: Carbon emissions and trading system as an effective means of mitigating greenhouse gas emissions, has been implemented in Europe and has received strong academic attention, but this paper focuses on whether China's Carbon Emissions and Trading Pilot (CCETP) will have an impact on enterprise innovation. In the course of the study, this policy provides us with a "quasi-natural experiment". This paper focuses on the causal effect of the environmental regulation of CCETP on the Chinese enterprises innovation, and according to difference-in-differences (DID) and difference-in-difference-in-differences (DDD) methods, it is found that CCETP will significantly reduce the enterprise innovation, in the meantime, this causal mechanism has a migration effect which means this inhibitory effect is not only effective for regulated enterprises, but also has a significant impact on non-regulated enterprises and other enterprises in the local region, especially on high pollution and state-owned enterprises and the results are still valid after a series of robustness tests. In the meantime, we have explored the mechanism of this effect. This paper provides a new reference perspective for the formulation of environmental regulation policies.

Key words: CCETP; Enterprise innovation; DID; DDD

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