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Energy efficiency gains from importing intermediate inputs: Firm-level evidence from Indonesia

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Abstract

This paper investigates whether importing intermediate goods improves firm-level environmental performance in a developing country, using data from the Indonesian manufacturing sector. We build a simple theoretical model showing that trade integration of input markets entails energy efficiency improvements within importers relative to non-importers. To empirically isolate the impact of firm participation in foreign intermediate input markets we use ‘nearest neighbour’ propensity score matching and difference-in-difference techniques. Covering the period 1991-2005, we find evidence that becoming an importer of foreign intermediates boosts energy efficiency, implying beneficial effects for the environment.

JEL: F12, F14, F18, Q56

Keywords: Trade, Intermediate Inputs, Energy Efficiency, Environment, and Indonesia.

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