

MANAGEMENT, PRODUCTION AND DESIGN

Environmental policy and firm internationalization

Funded By	Dipartimento DIGEP FONDAZIONE CRT CASSA DI RISPARMIO DI TORINO [Piva/CF:06655250014]
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Context of the research activity	<p>The research activity aims at investigating the causal link between environmental policies and firm's strategies in terms of both internationalization and production technologies. More specifically, it aims at contrasting and empirically testing the prevalence of the "pollution haven" vs. the "Porter" hypothesis in the Italian context.</p> <p>By using suitable quantitative methods for impact evaluation of public policies and leveraging the availability of detailed firm-level data on import, export and offshoring, the research activity intends to exploit the shock introduced by specific policy changes to estimate the effects of stricter environmental regulations on Italian firm's trade, offshoring and foreign investment decisions, as well as on their use of specific production technologies.</p>
	<p>The ever-growing processes of global economic integration and the declining transportation and telecommunication costs are making the ability of firms to thrive in foreign markets and to fragment production capacity in different countries an increasingly central concern in firm strategies. Motivated by the expectation about positive growth effects of trade and FDI, a wide literature has investigated the role of policies, such as trade promotion, that stimulate the internationalization of firms. In this context, comparatively little attention has been devoted to the implications of environmental policies for international trade and investments.</p>

Objectives

As climate change brings sustainability high in the agenda of governments and international institutions, ensuring basic levels of environmental protection is becoming an increasingly stringent requirement in the international exchange of goods and services. Indeed, economic theory depicts pollution as a typical example of a negative externality, that configures a market failure that is best addressed by regulation. Accordingly, public policies are increasingly regulating the use of polluting substances, the production of hazardous waste, emissions, deforestation and the protection of animal stocks. However, one of the key hindrances towards a green transformation is the alleged trade-off between growing versus greening the economy.

Indeed, there are concerns that environmental provisions impose compliance costs to domestic firms, causing a restructuring of firms' sourcing strategies and technologies. For instance, an immediate implication of policies banning the use of polluting substances is to drive a reduction in imports from countries with less stringent environmental regulations. However, if the costs of reorganizing production become too high, and there are large asymmetries in the stringency of environmental policies, firms may decide to offshore their production. This may result in shifting pollution-intensive production toward countries or regions with less stringent regulation, i.e. towards "pollution havens". This would imply that, in addition to imposing restructuring costs to domestic firms, the environmental impact of policies domestically would at least partially be offset by increasing emissions in other regions. A more positive view argues that stricter environmental policies can actually stimulate efficiency improvements and innovations in greener technologies that turn out to increase domestic firms' competitiveness.

The research activity intends to contribute to the current knowledge about the causal link between environmental policies and firm's internationalization and investment strategies. More specifically, it aims at contrasting and empirically testing the prevalence of the "pollution haven" vs. the "Porter" hypothesis in the Italian context. To this end, the research, mostly empirical, will leverage the availability of detailed firm-level data on import, export and offshoring of Italian firms. More specifically, it intends to exploit the shock introduced by specific environmental policy changes to estimate the effects of stricter environmental regulations on Italian firm's trade, offshoring and foreign investment decisions, as well as on the choice of production technologies. This will entail the use of suitable quantitative methods for impact evaluation of public policies such as diff-in-diff, event studies and propensity score matching.

An immediate outcome of the research is expected to be in terms of an impact evaluation of environmental policies per se. More broadly, the research is expected to provide some evidence on how Italian firms react to more stringent environmental regulations and on the implied costs of environmental policies for firms.

Competenze necessarie:

- Solida conoscenza di economia di base e di economia industriale
- Conoscenza di base di statistica e di econometria

**Skills and
competencies
for the
development of
the activity**

- Conoscenza di economia internazionale e delle strategie di internazionalizzazione delle imprese

Ulteriori competenze:

- Conoscenza dei metodi di valutazione di impatto
- Pregressa esperienza in analisi teoriche e/o applicate sulle politiche ambientali
- Conoscenza operativa di software statistici