

Dirty Industries and Pollution Havens: Evidence from China

Do developed countries relocate dirty industries to developing countries? This study tries to examine this issue by applying the Industrial Pollution Projection System (IPPS) to China's fast-evolving industry. If there is any pollution haven effect, the dirty production relocated from developed countries will either be consumed domestically in China or exported to other countries (and mainly back to the home countries where the dirty production is relocated from) so that such effect can be identified easily by looking at the structure of foreign trade and domestic consumption. In general, is China's industry becoming dirtier or cleaner? Be it dirtier or cleaner, is it driven by domestic demands or foreign demands and particularly demands from developed countries? Environmental impacts due to change in the patterns of foreign trade can be identified by looking at the bilateral trade. On the other hand, effects of domestic intermediate demands and final demands can be separated and change in the patterns of pollution due to structural change of domestic final demands can also be examined by looking the input-output tables.