

# **Trade Competition and Domestic Pollution: A Panel Study, 1980-2003**

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## **Abstract**

This research note examines whether trade competition abets regulatory races in the environmental area. To analyze trade competition, we develop a new measure, structural equivalence, which assesses competitive threats that a country faces from other countries whose firms export the same products to the same destinations. Employing this new measure, we analyze the environmental issues of air pollution (sulfur dioxide) and water pollution (biochemical oxygen demand) on a panel of 140 countries for the time period of 1980-2003. We find that trade competition is a driving force in water pollution among structurally equivalent countries. We then test separately whether trade competition abets upward and downward environmental regulatory races. We find that trade competition abets downward races in both air and water pollution, but that trade competition only encourages an upward race for water pollution.