Foreign Investment Quotas and the Differentiation of Emission Taxes *

Yasuyuki Sugiyama † and Muneyuki Saito ‡

Abstract

In this paper, we examine the differentiation of emission taxes between exportable and non-tradable sectors in a small country. A few articles indicate that the differentiation of environmental policies does not arise in the small country if the government uses price instruments as emission taxes. However, we show that the differentiation of emission taxes may happen in the small country which imposes foreign investment quotas. In particular, the possibility that ecological dumping occurs is higher if export goods are more labor-intensive than import goods, as in developing countries. Moreover, in the case where importable goods are most capital-intensive, both emission tax rates may be lower than marginal environmental damage, then ecological dumping may come up. It is also shown that the easing of foreign capital quotas may deteriorate the small open country's welfare.

Key words: ecological dumping, emission tax, non-traded goods, international trade, capital movement,

JEL classification: F18, F20

*Acknowledgement: We are indebted to Kenzo Abe for advice and encouragement.

†Graduate School of Economics, Osaka University, 1-7 Machikaneyama, Toyonaka, Osaka 560-0043, Japan. E-mail: jk802sy@srv.econ.osaka-u.ac.jp

‡Graduate School of Economics, Osaka University, 1-7 Machikaneyama, Toyonaka, Osaka 560-0043, Japan. E-mail: bg063sm@srv.econ.osaka-u.ac.jp