

# Pollution havens and agglomeration: The effect of globalisation on an international emissions permit price\*

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March 28 2019

## Abstract

Using an agglomeration model with innovation, we analyse an effect of transport costs on pollution havens. Interactions between an international emissions permit market and a local spillover in innovation bring about the following multiple equilibria: poverty trap equilibrium leads to a similar result to case of global spillover, while equilibrium with higher concentration of industries leads to pollution havens hypothesis because decreased transport costs lead to prompt firms to relocate in a country with relative small market via home market effect. Our findings imply that a type of whether spillover in innovation is local or global determines pollution havens hypothesis.

*Keywords:* foreign direct investment; agglomeration; spillover in innovation; emissions trading market; pollution havens hypothesis.

*JEL Classifications:* F18, F64, H23, O30, R11.

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\*The author is responsible for all of the errors in this article.

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