The trade and environment literature has identified two primary factors that can alter the pollution intensity (emissions per dollar) of production and hence trade. The Pollution Haven Hypothesis (PHH) states that richer countries, which impose stricter environmental regulations, will have a comparative advantage in clean goods. Poor countries will have a comparative advantage in dirty goods and become havens for dirty industries. On the other hand, the Capital Accumulation Hypothesis (CAH) posits that capital-abundant countries will have the comparative advantage in dirty goods since capital-intensive industries are also pollution intensive. Both hypotheses suggest that exposure to world markets will alter the composition of production so that the pollution intensity of its exports is inversely correlated to the pollution intensity of its imports. To test this, I construct an index of the pollution intensity of a country’s traded goods. I first calculate the average pollution intensity of exports (imports) as the weighted average of sectoral intensities for 16 pollutants using IPPS intensity data for 3-digit ISIC export (import) data. If the ratio of export intensity to import intensity is greater than one, then a country’s exports are, on average, dirtier than its imports. Similarly, a rise in the export-import intensity ratio over time indicates that exports are becoming dirtier relative to imports. Preliminary results, using a panel of 60 developed and developing countries, support the Capital Accumulation Hypothesis but offers little support for the Pollution Haven Hypothesis.

Key words: Pollution Haven Hypothesis; Capital Accumulation Hypothesis; Pollution Intensity; Composition of Trade

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