

## **Abstract**

This research aims to analyze the relationship between strict environmental regulations and productivity, as an approach to test the strong version of Porter Hypothesis (PH) by Michael Porter in 1995 that argues strict environmental regulations boost productivity. Strict environmental regulations are represented through Environmental Policy Stringency (EPS), an index (from 0 to 6) by OECD. Meanwhile, the proxy used for productivity is Total Factor Productivity (TFP) index (2010=100). This study uses Fixed Effect and System Generalized Method of Moments (GMM) models to analyze the relationship between TFP and EPS. Data used in this research covers 33 countries in OECD and BRIICS from 2001 to 2010. Through System-GMM approach, this research concludes that there is a positive relationship between EPS and TFP in sample countries, which follows the Porter Hypothesis. However, the TFP-EPS relationship differs between OECD and BRIICS countries, as it is positive in OECD countries but negative in BRIICS.

**Keywords:** Porter Hypothesis, Environmental Regulation, Environmental Policy Stringency, Generalized Method of Moments.