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Abstract

This paper seeks to investigate the impact of foreign direct investments (FDIs) on industrial pollution (CO2,SO2,NOxCO2,SO2, NOx and BOD emissions) on a large sample of highly heterogeneous countries. By using panel data on manufacturing FDIs from France, Germany, Sweden, and the United Kingdom between 1995 and 2008, and by developing an empirical model with “first” and “second order” interaction terms, we investigate the existence and the conditionality of the most controversial FDI-induced effects on industrial emissions, i.e., Pollution

Haven, Factor Endowments and Pollution Halo hypotheses. The paper has three main findings: (1) the central hypotheses linking pollution to FDI are found to act simultaneously, with opposing effects; (2) FDIs are associated with pollution reduction, i. e., predominating pollution halo induced effect, in countries with low to average capital-to-labour ratio but not too lax environmental regulation; (3) FDIs are found to increase pollution, i.e., prevailing pollution haven and/or factor endowments induced effects, in countries with average capital endowments and lax environmental regulations, as well as in all the capital abundant countries, though with a smaller magnitude in countries having strict environmental regulations and/or a high-skilled labour force. Some specific and interesting findings are discussed regarding different FDI-origin countries and FDI-host country groups.

Keywords

Environmental regulationFDIIndustrial air and water pollution Pollution haloPollution haven

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