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THE MODERATING EFFECTS OF FDI ON THE RELATIONSHIP BETWEEN DEMOCRATIC INSTITUTIONS AND CO2 EMISSIONS

Abstract:

This study aims to examine the direct effects of foreign direct investment (FDI) on the host-country environment. More specifically, how FDI moderates the relationship between democratic institutions and anthropogenic carbon dioxide emissions in a panel of 80 democratic nations during the period 1992-2018. The author uses the System Generalized Method of Moments, first difference and system estimators, which allows for the control for present reverse causality and endogeneity in the research design. For robustness checks, I use the cross-sectional dependence and Driscoll-Kraay robust errors panel regression method. Robust evidence is found in support of the pollution halo hypothesis, in a way that carbon dioxide emissions fall. The findings suggest that FDI moderates the relationship between several varieties of democratic institutions and carbon dioxide emissions.

Keywords:

FDI, Environmental impact, Anthropogenic emissions, Democratic institutions, Pollution halo, STRIPAT, GMM, Fixed effects

JEL Classification: Q01, Q58, Q56