THE EFFECT OF FOREIGN DIRECT INVESTMENT ON ECONOMIC GROWTH, CARBON EMISSION, AND SOCIAL WELFARE: A CROSS-COUNTRY STUDY

Suyanto[1]
Faculty of Business and Economics, Universitas Surabaya
Phone: +62312981230
Fax: +62312981131
E-mail: suyanto@ubaya.ac.id

Aluisius Hery Pratono
Faculty of Business and Economics, Universitas Surabaya
Phone: +62312983311
Fax: +62312981131
E-mail: hery_pra@ubaya.ac.id

Abstract

The impacts of Foreign Direct Investment (FDI) on host countries have been highly debated in the literature. This study contributes to this debate by focusing on the impacts of FDI on economic growth, carbon emission, and social security spending. Utilizing the panel data of 120 countries during 2006-2009, this study found that FDI plays a pivotal role in fostering economic growth of the host countries and it has a significant effect on the addition of carbon emission. However, the initiative to develop quality of life is not a key element yet in FDI.

Key Words: Foreign direct investment, economic growth, carbon emission, social security spending.
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INTRODUCTION

There has been an increasing debate on the role of foreign direct investment and multinational corporations on host countries development over the last three decades. The debate goes around two issues, which is discussed by Russ (2009) as two distinguished FDI models. The first model is defined according to Markusen (2002) that small capital flows to developing countries related to the scarcity in the supply of skilled labors. The second approach, which is in line with Richardian argument, claims that capital flows is a conceptual starting point triggered by excess labor supply (Kim et al., 2015).

Based on these two sets of models, Fukao and Wei (2008) classify FDI into two categories, that is vertical FDI and horizontal FDI. The vertical FDI refers to the initiative of intra firm vertical division of labor,

[1] Corresponding author.