

Foreign Direct Investment and Pollution Havens

JOHN KING[†]

ABSTRACT

It has been often argued that pollution-intensive industries locate in places with weak environmental standards, turning these locations into “pollution havens”. The present paper tests the pollution haven hypothesis employing a matched data on foreign direct investment flows and environmental stringency for Eastern Europe. Exploiting the panel data properties we are able to address omitted variable bias, specification, and measurement errors, which weaken many empirical studies. Our results suggest that environmental stringency indeed affects location choice in Eastern Europe. However, weak environmental levies are a significant attraction for foreign direct investment only from developing and transition countries.

JEL Classification: F12, F18, Q28.

Keywords: FDI, Environmental Economics and Policy, Environmental Stringency, International Relations, Trade, Pollution Haven Hypothesis.

[†]The author acknowledges the comments of Andrew Martin, Robert Kirkman and Environmental Economics and Policy seminar participants.