FOREIGN DIRECT INVESTMENT INFLOW AND ITS ENVIRONMENTAL EFFECTS IN DEVELOPING ECONOMIES

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Currently, there is a major threat to the earth's environment which is due to the increase in environmental damages, and welfare losses as a result of green house gases such as carbon dioxide and nitrous oxide, wars and political instability in the world. In addition, the climate is changing, scarce species as well as resources in general are depleting. Among others, foreign direct investment (FDI) is the major factors that may lead to this result.

After the Second World War there was a high need for economic integration, towards economic prosperity and liberalization that leads to the establishment of the most important international organizations, such as IMF, UNCTAD, OECD (organization of economic cooperation development) and so on.

Foreign Direct Investment (FDI) has positive effect on host country’s development efforts. In addition to being the main source of external capital, the inflow of foreign investment also helps in filling the resource gap between the targeted investment and locally mobilized savings, FDI can increase the productivity of the host country as more advance managerial techniques from foreign firms spread to local firms, multinational firms and cooperation are usually at the technological frontier and have access to latest and most advanced technologies. When they invest at the same time, it is expected to transfer these technologies which will be spread to other firms in the host countries. Foreign direct investment also helps to develop managerial and specialized technological skills, in process of learning by doing in the host country.

As competition becomes more global, people are concerned that relatively lenient environmental regulation and lax enforcement in developing countries give them a comparative advantage in pollution intensive goods. Lowering trade barrier may encourage a relocation of polluting industries from countries with strict environmental policy to those with lenient policy. These shifts may increase global pollution or lead to race-to-the-bottom environmental policy practices.

Trade and foreign investment has caused great concerns as the pollution in different country increases with the expansion of the economy. Also many of developing countries have experienced rapid industry growth during the period of economic reform. While this growth has increased incomes and reduced overall poverty levels, it has been accompanied by serious environmental damage. Industries are primary source of the environmental problems since they are the source of most dangerous gases such as Sulfur dioxide SO2, Carbon Monoxide CO, Nitrous oxide and Carbon dioxide.

Baek and Koo (2008), using co integration analysis and a Vector Error Correction

(VEC) model, examine the short and long run relationships among Foreign Direct Investment (FDI) economic growth and the environment in China and India. The results show that FDI inflows play a pivotal role in determining the short and long-run movement of economic growth through capital accumulation and technical spillovers in the two countries. However, a FDI inflow in both countries was found to have a detrimental effect on environmental quality in both the short- and long-run. Also, they found that, in the short-run, there exists a unidirectional causality from FDI inflows to economic growth and the environment in China and India a change in FDI inflows causes a change in environmental quality and economic growth but the obverse does not hold.

Through the release of industrial waste, for example from mining, metal and oil refining activities, into streams and rivers, from where it may make its way into the ocean. A variety of toxic metals can affect aquatic and marine life and may accumulate in the food chain, posing a threat to humans. Another major source of water pollution is fertilizers, which can be washed into rivers and lakes from farmland, causing a phenomenon known as eutrophication. Nitrates and phosphates, present in fertilizers, can promote uncontrolled multiplication of algae in lakes, reducing water quality and oxygen levels, and destroy aquatic life. Gases emitted from heavy industries are source of acid rain, which react in the atmosphere, resulting to acid rain that kill plants, fish and destroying old buildings, which are for most, important heritage for tourism business.

Another case of major concern is that, most of Multinational National cooperation's tend to exert influence on politics of host countries especially developing countries. MNCs deregulate all rules which are not in the favor of their business atmosphere, force false propaganda in international sphere and or create violence when are not satisfy with behavior of certain political leader which do not act on their behalf of satisfaction. Such examples are; division of Sudan to South and North Sudan, Iraq war which lead to the use of WMD and over thrown of sultan of Zanzibar Khalid Bin Barghash in 1896 to replace him with his cousin Hamoud Bin Mohamed which British thought it will be easy for them to work with him.

In conclusion, promoting FDI for economic development, should be associated with stringent environmental laws and policies, high penalties to companies which do not act under environmental laws, investing more in riskfree technologies and to spread public awareness through media about methods of preserving environment and the effect of hazardous substances on threatening living lives.

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