An Empirical Study of the Impact of Chinese Environmental Regulations on South Korea's Foreign Direct Investment

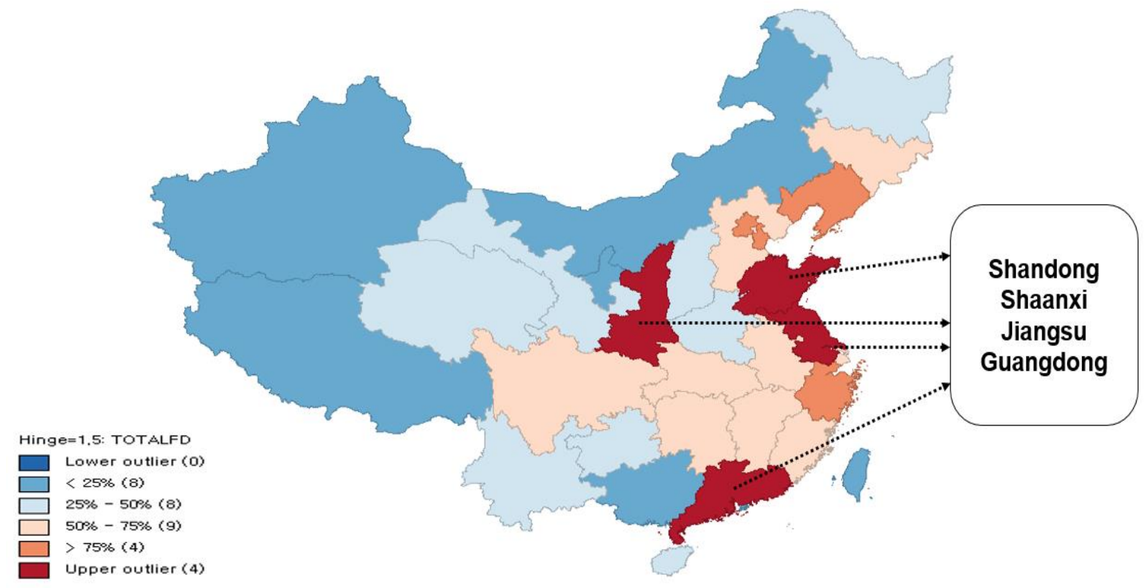
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Abstract

The purpose of this study is to empirically analyze the effect of Chinese environment regulation on South Korea's foreign direct investment. According to the earlier studies, the relationship between environmental regulation and FDI were suggested as negative. Because strict regulation decreases foreign firm's investment motivation, and they would likely to invest foreign countries with more loose regulation. In this study, more concretely, we examine how environmental regulation of each Chinese provincial government affects FDI of South Korea. From the result, we find the evidence for supporting the hypothesis. That is, South Korea's FDI is negatively affected by strictness of environmental regulation of each provinces. However, it is suggested that major specific industries are significant however the other industries such as textile, wood and pulp, chemistry are not significant. Thus, it can be assumed that there are differences for impact of environmental regulation on South Korea's FDI. Finally, This study would contribute to the development of study which discusses pollution heaven hypothesis and FDI.

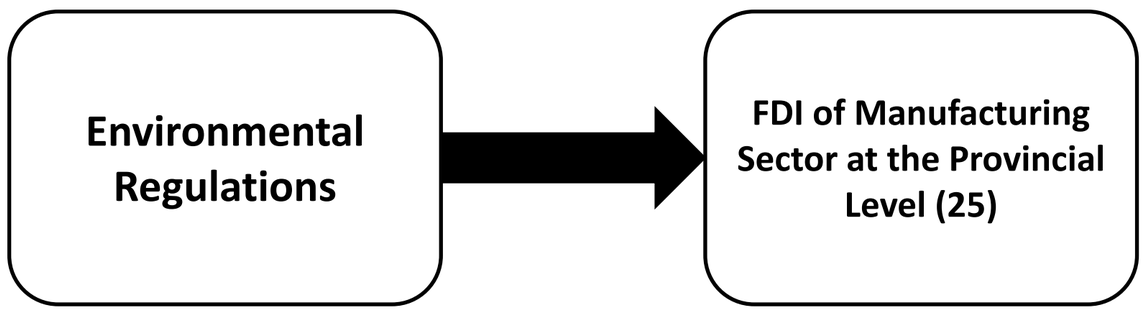
Keywords: FDI, Environmental Regulation, China

Locational Distribution of Korean FDI



Research Framework (Major Research Hypothesis)

The environmental regulation has negative impact(-) on South Korea's FDI. The effects may vary in manufacturing industries.

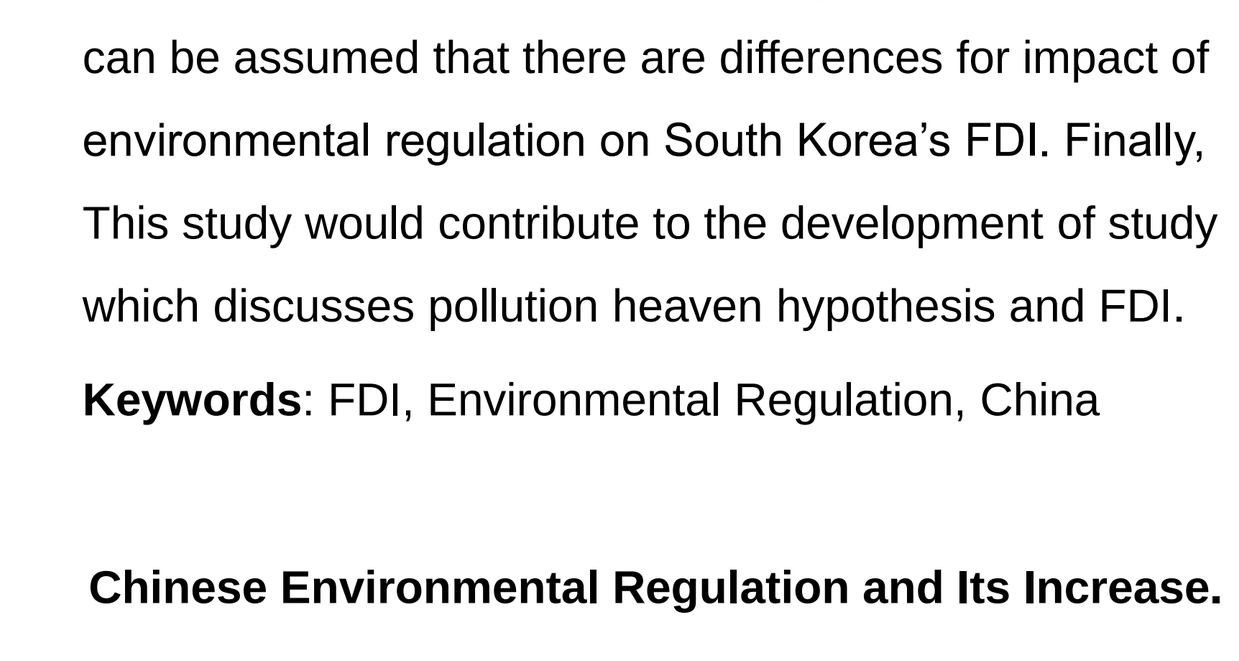


Data: panel set (2008-2015)

Unit: Chinese 25 Province (provincial level)

Methodology: Panel Regression with random effect and Hausman-Taylor model

Chinese Environmental Regulation and Its Increase.



Theoretical Discussion

1. Environmental Regulation

The foreign investors recognize the ER as strained cost.
Entrance barrier: weakening competitiveness, forcing to transfer
However, the empirical results are controversial (but, not clear).

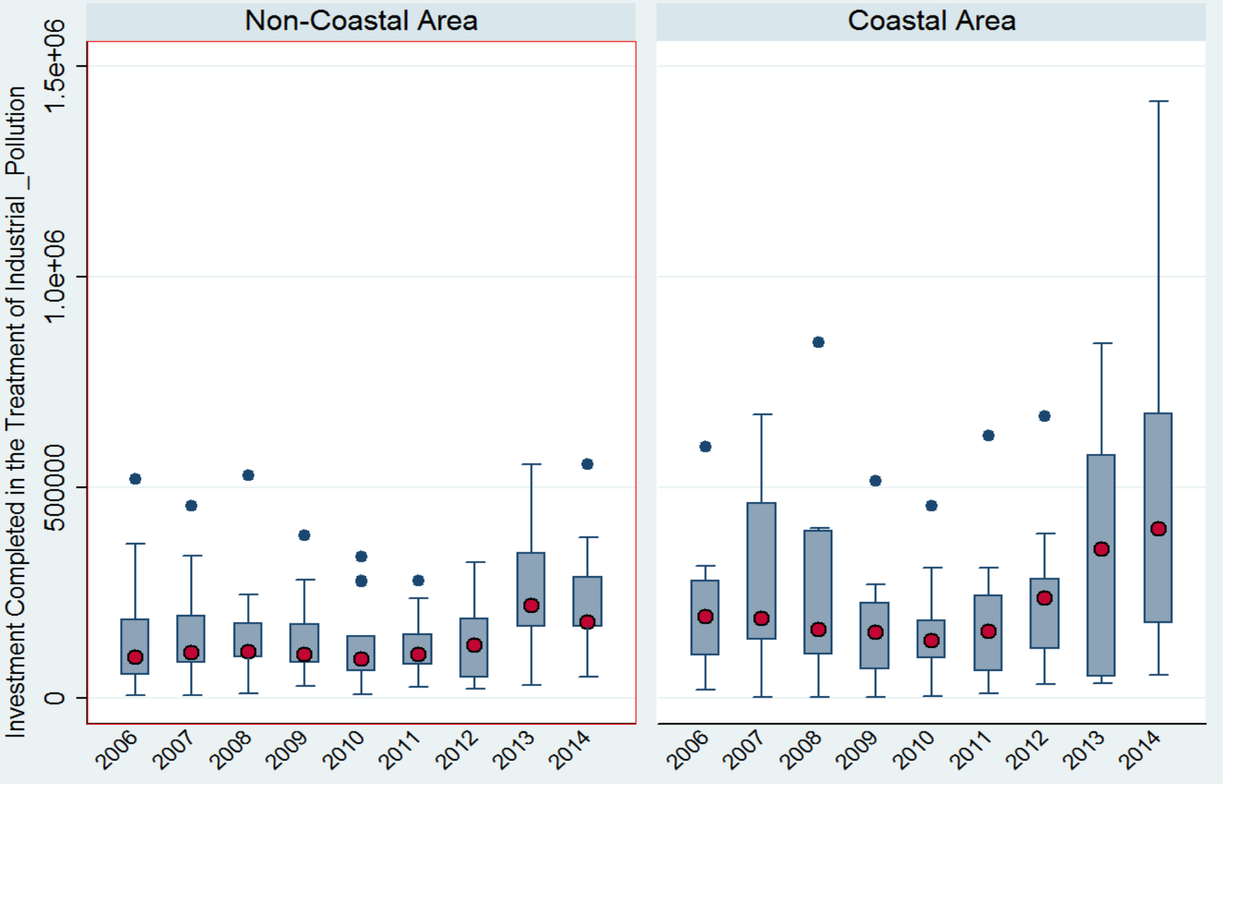
2. Foreign Direct Investment

"the eclectic paradigm is most powerful economic theories to explain determinant s of FDI(Dunning, 2000; 163)"

3. Link Between FDI and Environmental Regulation

Pollution Haven Hypothesis: "Laxer regulation, more FDI"

South Korea's FDI in China



Empirical Results

(the Impact of Environmental Regulation on FDI)

Sector	ER ⇒ FDI	Sector	ER ⇒ FDI
Metal	○	Auto	○
Food	○	Electronics	○
Rubber	○	Textile	X (not significant)
Oil	○	Wood	X (not significant)
Mineral	○	Chemicals	X (not significant)

Note: * p <0.05