

Foreign Direct Investment, Economic Growth and CO2 Emissions: Evidence from WAIFEM Member Countries

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Abstract : The purpose of this paper is to investigate the effects of foreign direct investment (FDI), economic growth on carbon emissions in context of WAIFEM member countries. The Im-Pesaran-Shin panel unit root test, Kao residual based test panel cointegration technique and panel Granger causality tests over the period 1980-2012 within a multivariate framework were applied. The results of cointegration test revealed a long run equilibrium relationship among CO2 emissions, economic growth and foreign direct investment. The results of Granger causality tests revealed a unidirectional causality running from economic growth to CO2 emissions for the panel of WAIFEM countries at the 5% level. Also, Granger causality runs from economic growth to foreign direct investment without feedback. However, no causality relationship between foreign direct investment and CO2 emissions for the panel of WAIFEM countries was observed. The study therefore, suggest that policy makers from WAIFEM member countries should design policies aim at attracting more foreign direct investments inflow as well the adoption of cleaner production technologies in order to reduce CO2 emissions.

Keywords : economic growth, CO2 emissions, causality, WAIFEM

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