FDI, Environmental Regulations and Innovation Performance of Chinese Enterprises

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Abstract : Innovation driven and innovation in the process of new-type urbanization is a major strategic choice for the introduction of foreign capital and the process of economic development. This research investigates the effect of urbanization, FDI and environmental regulations on innovation performance of enterprises, based on Chinese Industrial Statistics Database of 2004 to 2007 and data at province-level. It is found that the FDI from U.S. and environmental regulations will hinder the creativity of Chinese industry through reducing the R&D of them. However, the FDI from U.S. enhances the ability of domestic enterprises to attain "compensation from innovation" following the environmental regulations. Meanwhile, we confirm that environmental regulation can contribute to the innovation spillover of FDI from U.S. Furthermore, the channel of effect is discussed. In addition, FDI from EU and Japan are further examined. Unlike the FDI from U.S., the FDI from EU and Japan both have the positive innovation spillover effect, but through the same channel referred above which exist in FDI. Further analysis based on "innovation-driven effect" of urbanization is developed, and it is found that urbanization has an innovation-driven effect on environmental regulation and FDI spillover. The regulation of FDI from the United States and the European Union outperforms the FDI from Japan at a restrained degree.

Keywords : environmental regulations, FDI, innovation-driven, innovation performance

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