

**FOREIGN DIRECT INVESTMENT AND EKC:
EVIDENCE FROM ASIAN ECONOMIES**

Submitted by:
Gargi Das

*A project report for review submitted in partial fulfillment of the
requirement for the award of the degree of*

**MASTER OF ARTS
IN
ENVIRONMENTAL ECONOMICS
MADRAS SCHOOL OF ECONOMICS**



May 2025

Madras School of Economics

Chennai-600025

Abstract

Emerging Asian markets have experienced strong economic growth in recent decades, largely fueled by foreign direct investment (FDI). FDI contributes to job creation, technology transfer, export growth, and improved living standards. This study investigates the impact of Foreign Direct Investment (FDI) on Carbon dioxide (CO₂) emissions across 33 Asian economies from 1995 to 2023, with a focus on the Environmental Kuznets Curve (EKC) hypothesis and the role of FDI in manufacturing. The study results while confirming EKC hypothesis, highlight that the role of FDI on CO₂ emissions depends on level of economic development of the country. In high-income economies, FDI tends to reduce emissions, while in low and middle-income countries, the relationship remains more complicated, often exacerbating environmental degradation. Overall, the findings support the EKC hypothesis in some cases but highlight that FDI's effect on CO₂ emissions is heavily context-dependent, influenced by the country's income group and sectoral composition of FDI inflows. Further, the study argues that the FDI inflows into manufacturing sector would have significant influence on the CO₂ emissions.

Keywords: FDI, EKC, CO₂ emissions, Asian economies, Manufacturing sector, Development, Growth

JEL Codes: F21, O44, O53, Q0, Q54