

Foreign Direct Investment or Lobbying for Tariff–Pollution Externality Model

Abstract

Since the domestic government can make its choice between alternative policy instruments to maximize its welfare, this paper analyzes how a domestic government makes the policy about foreign direct investment by Grossman and Helpman (1994) political contribution model. It shows that opening FDI or not is affected by the weight that the domestic government puts on the social welfare. We found that domestic government tends not to open FDI when it puts little weight on the social welfare. In this case that the weight and market are large enough, the domestic government tends to open FDI as the pollution externality increases.

Key words : foreign direct investment, political contributions, spillover effect, pollution externality.