# IMPACT OF FOREIGN DIRECT INVESTMENT ON THE ECOLOGY AND ENVIRONMENT

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**ABSTRACT**

This article examines the impact of foreign capital attracted to the country on ecology and environment, in particular, attention is paid to the impact of foreign direct investment (FDI) on the environment. He emphasizes the importance of integrating environmental issues into investment policy and developing cooperation between governments, businesses, and civil society to mitigate environmental risks and maximize benefits from direct investment. Overall, this paper contributes to understanding the environmental impact of foreign capital investment and provides insights for policymakers, investors, and stakeholders seeking to balance environmental protection with economic development.

**KEYWORDS**

Foreign capital, Foreign direct investment (FDI), Environment, Ecology, Ecological stability, Ecological impact, Environmental impact.

## INTRODUCTION

The influx of foreign capital into countries has become a decisive force shaping the world economy, but its environmental consequences are increasing. This article explores the environmental and ecological impacts of foreign capital exposure, exploring the multifaceted interactions between economic development, environmental sustainability, and natural resource management. As countries often attract foreign investment for industrialization and infrastructure projects, careful assessment of potential environmental consequences is necessary to ensure long-term environmental sustainability. The introduction of foreign capital, in particular through foreign direct investment (FDI), can have both positive and negative environmental consequences. On the one hand, foreign direct investment in advanced technologies increases environmental sustainability, promotes the adoption of renewable energy, promotes environmental conservation efforts, and can introduce practices. Conversely, rapid industrial expansion at the expense of foreign investment leads to habitat destruction, pollution, resource depletion, and biodiversity loss, and exacerbates environmental degradation and climate change. Understanding the delicate relationship between foreign capital and environmental impacts is critical for policymakers, environmentalists, and other stakeholders seeking to balance economic growth and environmental protection. Through case studies, empirical studies, and theoretical frameworks, this article aims to shed light on the complex dynamics at play and provide insight into effective strategies for promoting sustainable development under the influence of foreign capital.

## LITERATURE REVIEW AND METHODOLOGY

A review of the literature on the econometric assessment of the impact of foreign investment on ecology and the environment reveals several key findings and insights. Several studies have explored the relationship between foreign investment and environmental outcomes using econometric methods. For example, Smith et al. (2018) studied the impact of foreign direct investment (FDI) on deforestation in

developing countries. Their analysis found a significant positive correlation between FDI inflows and deforestation, suggesting that foreign investment can exacerbate environmental degradation under certain circumstances. In contrast, other studies have reported mixed findings on the environmental impact of foreign investment. For example, Zhang and Wang (2019) conducted a comprehensive meta-analysis of the literature on FDI and air pollution levels. They found that the relationship between FDI and air pollution is complex and varies depending on host countries' level of industrialization, environmental regulations, and technological progress. In addition, studies by Li et al. (2020) focused on the role of institutional quality in mitigating the environmental impact of foreign investment. Their research showed that strong environmental governance mechanisms can mitigate negative environmental externalities associated with FDI, and highlighted the importance of regulatory frameworks in shaping environmental outcomes. Future research in this area should consider factors such as host country characteristics, policy interventions, and sectoral differences to more fully understand the environmental impact of foreign investment.

**METHODOLOGY**: Econometric models: Econometric methods were used to analyze a large data set of environmental indicators and foreign capital flows. Regression analysis was used to assess the statistical significance of the relationship between direct investment or other forms of foreign capital and various environmental variables. These assessments usually include identifying potential environmental hazards, estimating the extent of impacts, and proposing mitigation measures.

**RESULTS AND DISCUSSION**

It was considered how attracting foreign capital to the national economy affects macroeconomic indicators. It was found that foreign capital has a significant effect on some indicators, while its effect on others is not noticeable. The inflow of foreign capital is the cause of economic growth and the growth of exports. This

increase in production occurs after the establishment of additional production forces, factories, and companies with the participation of foreign capital. Naturally, the growth of production causes damage to ecology and the environment.

In this part of the chapter, the impact of foreign direct investments on ecology is assessed. In this case, the logarithmic value of the TTXI volume was taken as the dependent variable, and the amount of carbon dioxide gas per capita (CO2, in tons) was taken as the independent variable. The reason why the logarithmic value of the indicator representing the volume of carbon dioxide gas was not obtained is that a long-term relationship between TTXI and CO2 was not determined in its logarithmic value. It was also found that its logarithmic value is not stationary.

Population growth, human capital, and natural capital indices were selected as control variables for more accurate regression. In the selection of these variables, the variables taken by previous researchers as control variables were also taken into consideration. We can see the table describing the variables below. (Table 1)

***Table 1***

**Description of variables**

| **Variables** | Variable description |
|---|---|
| **CO2_PC** | Carbon dioxide emissions per capita (in tons) |
| **lnFDI** | Logarithmic value of the flow of foreign direct investments |
| **lnPOP** | Logarithmic value of population |
| **HC** | Human capital index |
| **NC** | Natural capital index |
| **ICT** | Information and Communication Technologies (ICT) Index |

It is known from the above tests that the human capital, information, and communication technologies (ICT) index and natural capital index are not

stationary. It is also known that the variables correlate with each panel. If we look at the table of descriptive statistics, we will also get information about the indicator representing carbon dioxide gas (Table 2).

***Table 2***

**Descriptive statistics**

| Variables | Number of observations | Mean value | Standard dev | Minimum value | Maximum value |
|---|---|---|---|---|---|
| **CO2_PC** | 220 | 5,415 | 4,295 | 0,32 | 15,3 |
| **lnFDI** | 220 | 20,545 | 1,89 | 14,691 | 25,041 |
| **lnPOP** | 220 | 16,132 | 1,113 | 14,771 | 18,826 |
| **HC** | 220 | 46,92 | 5,415 | 36,9 | 61,3 |
| **NC** | 220 | 60,106 | 8,074 | 45,7 | 79,4 |
| **ICT** | 220 | 9,48 | 4,962 | 3,10 | 24,4 |

There are a total of 220 studies on the variable representing carbon dioxide, and this information is taken from the World Bank report and is given in annual tons of carbon dioxide gas per capita.

Depending on which country it is, this indicator reaches from 0.32 tons per year (minimum) to 15.3 tons (maximum). Also, the highest value of the human capital index in the studied countries is 61.3, while the lowest value is 36.9. The highest and lowest values of the natural capital index are 79.4 and 45.7, respectively.

***Table 3***

**Dependency test across each panel**

| Variables | CD-test | p-value |
|---|---|---|
| **CO2_PC** | 8.096 | 0,000 |

| | | |
|---|---|---|
| **lnFDI** | 19.121 | 0,000 |
| **lnPOP** | -0,151 | 0,880 |
| **HC** | 20.741 | 0,000 |
| **NC** | 3.709 | 0,000 |
| **ICT** | 30.365 | 0,000 |

According to Table 3, there is also a correlation in the index representing carbon dioxide gas across each panel. It is also required to apply the second-generation unit root test.

The results of the second-generation unit root test are also presented below, and it was found that the variable representing carbon dioxide is also non-stationary. There may be no long-term relationship between such variables. Therefore, it is necessary to conduct a cointegration test before the regression.

***Table 4***

**First and second-generation unit root tests, Lewin-Lin-Chu and Pesaran CADF tests**

| **Variables** | t-bar | p-value |
|---|---|---|
| **CO2_PC** | -1.560 | 0.995 |
| **lnFDI** | -3.414 | 0,000 |
| **lnPOP** | -1.963 | 0.881 |
| **HC** | -2.122 | 0.739 |
| **NC** | -2.032 | 0.828 |
| **ICT** | -1.988 | 0.863 |

If the p-value is higher than 0.05 (in the CO2_PC variable, p-value = 1.000 > 0.05), it means that it is not stationary, there are various fluctuations in the linear graph of the variable.

If there is no long-term relationship between the dependent variable and the

non-stationary variables, a good result cannot be obtained from the implementation of regression. Therefore, the stationarity checker is the unit root Cointegration tests and long-term correlation tests usually come together, one as a complement to the other. When the variables were tested for multicollinearity, each VIF coefficient was found to be less than 5. Therefore, there is no problem with multicollinearity, which has a serious negative effect on the regression results. These variables can be used as independent variables when constructing the regression equation.

**Variation inflation factor**

| Variables | VIF | 1/VIF |
|---|---|---|
| **HC** | 2,365 | 0,423 |
| **lnPOP** | 1,881 | 0,532 |
| **L.lnFDI** | 1,87 | 0,535 |
| **NC** | 1,837 | 0,544 |
| **Mean VIF** | 1,988 | |

When the variables were tested for cointegration, it was found that there was a long-term relationship between the dependent variable and the independent variable. The Kao cointegration test is presented below (Table 5):

***Table 5***

**Kao cointegration test**

| | Statistics | p-value |
|---|---|---|
| **Modified Dickey-Fuller t** | -2.5685 | 0.0051 |
| **Dickey-Fuller t** | -3.0027 | 0.0013 |
| **Augmented Dickey-Fuller t** | -2.2247 | 0.0130 |
| **Unadjusted modified Dickey-Fuller t** | -2.5703 | 0.0051 |
| **Unadjusted Dickey-Fuller t** | -3.0034 | 0.0013 |

A long-term correlation was found in all five different tests (p-value < 0.05). Based

on the results of the tests, the individual conclusions of each variable, a panel model with corrected standard errors was selected for this analysis. The regression model equation implemented below is:

$$CO_2\_PC_t = a + b1*lnFDI_{t-1} + b2*lnPOP_t + b3*HC_t + \\ +b4*NC_t + c$$

Here, a is a constant, c is a standard error, t is the current period, and t-1 is the period one year ago. The results of the regression show that the flow of direct foreign investments has a positive effect on the amount of carbon dioxide per capita per year. Since p-value = 0.012<0.05, the effect of TTXI flow on CO2 emissions is positive and statistically significant. In particular, a 1% increase in the volume of foreign direct investments leads to an increase in annual carbon dioxide emissions per capita by 0.0015 tons = 1.5 kilograms. Also, the increase in the number of people per capita of carbon dioxide, and improvement of human capital and natural capital has a positive effect and is statistically highly significant. The growth of these indicators leads to an increase in the volume of carbon dioxide gas emissions per capita.

***Table 6***

**Prais-Winsten regression model, panel corrected standard errors (PCSEs).**

| CO2_PC | Coefficient | Standard dev | t-value | p-value | [95% confidence interval] | | Sig |
|---|---|---|---|---|---|---|---|
| **L.lnFDI** | 1,282 | 0,169 | 7,57 | 0,000 | 0,950 | 1,614 | *** |
| **lnPOP** | 0,794 | 0,180 | 4,41 | 0,000 | 0,441 | 1,147 | *** |
| **HC** | 0,104 | 0,027 | 3,82 | 0,000 | 0,050 | 0,157 | *** |
| **NC** | 0,179 | 0,021 | 8,33 | 0,000 | 0,137 | 0,221 | *** |
| **constant a** | -49,351 | 2,360 | -20,91 | 0,000 | -53,978 | -44,72 | *** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | | 4 | |
| **Dependent variable average value** | | 5,415 | **From the dependent variable standard deviation** | | | 4,294 | |
| **R- square** | | 0,578 | **number of observations** | | | 210 | |
| **Chi- square** | | 2120,32 | **Prob > chi2** | | | 0,000 | |
| ****** p<0,01, ** p<0,05, * p<0,1*** | | | | | | | |

In Figure 3.3 below, we can see that there is a positive relationship between the volume of foreign direct investments and the volume of carbon dioxide emissions per capita. In this case, we can see that as the size of TTXI increases, carbon dioxide emissions per capita also increase.

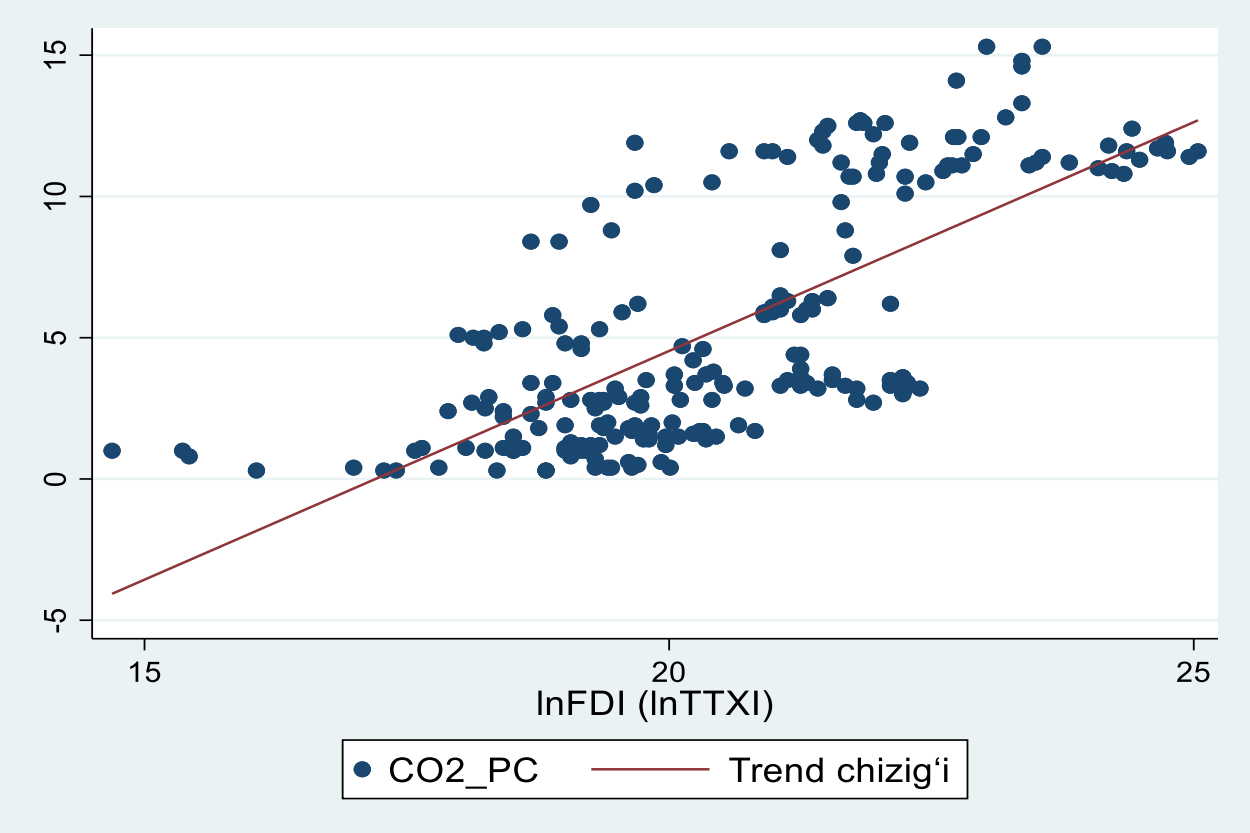

**Figure 1. The relationship between the volume of TTXI and the volume of CO2 emissions**

We will carry out some accounting work to analyze the extent to which the influx of foreign capital can harm ecology and the environment. In the process of analysis, economic-social, political systems, level of incomes, presence in similar integrated structures, recognition by international organizations as a developing country, and the presence of Uzbekistan among these countries, conclusions for our country as well. can be given. According to the results, when the panel data of 10 countries of the CIS are analyzed for the years 2000-2021, a 1% increase in the flow of GHG will increase the annual volume of carbon dioxide per capita in these countries by 1.2 kilograms. it was found to cause growth.

If we make calculations for Uzbekistan, according to the Statistics Agency under the President of the Republic of Uzbekistan, today the population of Uzbekistan has exceeded 36.2 million people. Therefore, a 1% increase in the flow of foreign direct investment into Uzbekistan will lead to an additional increase in carbon dioxide emissions for the environment by 1.2*36232000 = 43478400 kilograms. will come. According to the information of the European Environment Agency, one tree can absorb 22 kilograms of carbon dioxide and release oxygen in a year. If we calculate for Uzbekistan, an additional 43478400/22 = 1976291 trees will be needed throughout the country to compensate for the loss of 43478400 kilograms of carbon dioxide gas released into the air as a result of a 1% increase in the volume of greenhouse gas emissions. According to the latest data from the World Bank, the flow of foreign direct investment into our country in 2021 increased by 20.4% compared to 2020. This, in turn, has an impact on ecology, and to compensate for this damage, additional 1976291*20.4 = 40316334 trees are required to be planted in our country. For comparison, in 2022, the "Green Year" event was announced by the president. As part of this event, it is planned to plant 125 million tree saplings starting from March 1, 2022. Based on the regression results, it was

found necessary to plant more than 40 million trees across the country to compensate for the damage caused to the environment by the foreign capital that entered in 2021. Of the 125 million trees expected to be planted, 40 million can be used to compensate for the damage caused by the inflow of foreign capital, companies, firms, and factories with the participation of foreign capital.

According to the results of the econometric regression analysis, the inflow of foreign direct investments also affects the environment. This does not mean that the government should restrict the entry of foreign capital into the country. Because the influence of foreign capital on the national economy is greater than the damage it can cause. The positive impact of foreign capital on other macroeconomic indicators is the first of this chapter

determined in the section. It is appropriate for the country to set various requirements for attracting foreign investments to the economy. These requirements lead to the reduction of various damages to the environment. For example, the government can encourage foreign investors to reduce the amount of damage caused to the environment within a certain limit, impose a fine if the limit is exceeded, and encourage foreign companies to install modern, innovative technologies that cause less damage to the environment.

## CONCLUSIONS AND SUGGESTIONS

In this study, we studied the impact of foreign capital on ecology and the environment. As a result of our analysis, several important conclusions emerged that emphasize the complex relationship between the flow of foreign capital and environmental sustainability. Our research shows that the flow of foreign capital can stimulate economic growth and development, but also exert pressure on the environment through various channels. Industrial activities associated with foreign investment, such as manufacturing, mining, and energy production, often lead to increased pollution, habitat destruction, and depletion of natural resources. In addition, our analysis shows that the environmental impact of foreign capital flows

is influenced by factors such as regulatory frameworks, technological capabilities, and institutional capabilities. Countries with weak environmental protection regulations and enforcement mechanisms are especially prone to environmental degradation caused by foreign investment. Based on our conclusions, we offer several suggestions for stakeholders to mitigate the negative environmental impact of foreign capital inflows:

1. Strengthen environmental regulations: Foreign investors should prioritize the development and implementation of strict environmental regulations to ensure that they adhere to sustainable practices and minimize negative externalities. By implementing measures such as pollution controls, waste management standards, and biodiversity conservation initiatives, countries can mitigate the environmental risks associated with foreign capital flows.

2. Encouraging foreign investors to give priority to environmentally friendly projects and technologies will help mitigate the impact of foreign capital flows on the environment. Policymakers can provide incentives such as tax breaks, subsidies, and incentives for green investments to attract responsible investors and encourage sustainable development. Strengthening environmental monitoring and evaluation: Investing in strong monitoring and evaluation systems will help policymakers monitor the environmental impact of foreign capital flows and intervene in time to address emerging problems. By collecting reliable data, conducting environmental impact assessments, and involving local communities in decision-making processes, countries can ensure that foreign investments are aligned with environmental sustainability goals**.**

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