Accepted Manuscript

Title: Foreign direct investment, foreign trade and environment: New evidence from simultaneous-equation system of gravity models

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PII: S0275-5319(17)30465-8
DOI: http://dx.doi.org/doi:10.1016/j.ribaf.2017.07.161
Reference: RIBAF 851

To appear in: *Research in International Business and Finance*

Received date: 17-2-2016
Revised date: 12-10-2016
Accepted date: 6-7-2017

Please cite this article as: Kahouli, Bassem, Omri, Anis, Foreign direct investment, foreign trade and environment: New evidence from simultaneous-equation system of gravity models.Research in International Business and Finance http://dx.doi.org/10.1016/j.ribaf.2017.07.161

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# Foreign Direct Investment, Foreign Trade and Environment: New Evidence from Simultaneous-equation system of Gravity Models

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## Abstract

Since the early 90s, after the implementation of various regulatory multinational agreements, debates about the impacts of environmental quality on international trade and Foreign Direct Investment (FDI) have been increased considerably. This article tackles this issue for 14 home countries and 39 host countries for 6 Regional Trade Agreements (RTAs) over the period 1990-2011 by using gravity models. We also used simultaneous-equation system of gravity models in order to investigate the two-way linkages between trade and FDI in the presence of environmental degradation. Our main findings suggest that the impact of the environmental degradation on trade is negative and significant only for the static estimation. However, the impact of the environmental degradation on FDI is negative and insignificant for both static and dynamic estimations. The results also show that there exists a unidirectional causal relationship running from trade to FDI.

*JEL classification: F15, F18, C2, C26*
*Keywords :* FDI, Trade, Gravity Equations, Simultaneous- equation system.

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