

## **ABSTRACT**

This thesis investigates in general an empirical study on the Pollution Haven Hypothesis (PHH) and in particular the environmental impact of Foreign Direct Investment (FDI) in China. Globalization is an unstoppable and irreversible process, and hence a significant issue for developing countries especially for China, given its increasing openness to the rest of world, its WTO entry in 2001 and the resultant closer connection between China and global economy. China has become one of the most attractive destinations for foreign capital and has absorbed the largest amount of FDI inflows among all the developing countries in the world.

The purpose of this thesis is to provide some evidence on the PHH by empirically testing the impact of FDI on environment in China. Towards that end, the framework of Environmental Kuznets Curve (EKC) model is employed and a panel data analysis is conducted applying China's provincial data from 1997 to 2006. Along with our endeavor on FDI-environment relation, attempts are also made to examine the relationship between economic growth and the environment performance. The main estimation results imply that with 1 percent increase in FDI inflow, industrial SO<sub>2</sub> emission (pollutant indicator) would increase by 0.11 percent. This result provides little significant evidence supporting the validity of PHH in China.