ABSTRACT

Abstract of thesis entitled "How does FDI affect the Environment in China: Evidence from Provincial Panel Data." Submitted by JU Jing (M-A8-6804-4) for the degree of Master of Social Sciences in Economics at the University of Macau in August 2010.

This thesis studies how does FDI affect the environment in China by using provincial panel data that covers twenty-six provinces, as well as four municipalities directly under the central government from 1997 to 2008. Five environmental indicators including water, air and solid indicators are used to proxy the level of environmental degradation. Particularly, to discover a nonlinear relationship between FDI and the environmental degradation, this study includes the square term of FDI. The 2SLS instrumental variable regression results have proved the positive linear effect of FDI to the environmental degradation. Besides, this study also aims to examine whether the environmental regulations in China are of strong governing power. Generally speaking, FDI is found to affect the environment nonlinearly when COD (chemical oxygen demand) discharged from waste water, industrial SO_2 emission, and waste solid produced are used as environmental indicators. This means the turning points of FDI exist in the relationship. When the scale of FDI absorbed is less than the turning point, the increase of FDI will result in worse environment while when the scale of FDI exceeds the turning point, FDI starts to benefit the environment. The environmental regulations in China are not so effective in controlling the industrial emissions and dumping.