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The Gift that Keeps Giving: FDI Inflows in China

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ABSTRACT

This paper investigates the primacy of foreign direct investment inflows in liberalizing China’s economy and whether the long-term gains from economic openness will justify its inefficient energy uses and growing regional income disparities. By examining the history of FDI inflows in China, it becomes evident that FDI inflows were an instrumental part in institutional and technological development in China. I extend the argument to take into account how these developed infrastructures react to China’s growing energy demand in light of a shrinking world supply. Lastly, I perform a meta-analysis on the Environmental Kuznets Curve theory and the Pollution Haven Hypothesis, to examine if there are negative environmental outcomes from FDI inflows. I find that the technological effect of FDI inflows tend to result in long-run improvements under most circumstances.
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