

2011

The Gift that Keeps Giving: FDI Inflows in China

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Recommended Citation

Chang, Joseph, "The Gift that Keeps Giving: FDI Inflows in China" (2011). *CMC Senior Theses*. Paper 123.
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CLAREMONT McKENNA COLLEGE
THE GIFT THAT KEEPS GIVING: FDI INFLOWS IN CHINA

SUBMITTED TO
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AND
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BY
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FOR
SENIOR THESIS
SPRING 2011
APRIL 25, 2011

ACKNOWLEDGEMENTS

I would like to thank my parents, David and Sun, and my brothers, Ho Jae and Phillip, for their limitless love and patience throughout my four years at Claremont McKenna College.

I would also like to thank my thesis reader, Professor Myung-Koo Kang for guiding me throughout this long, laborious process.

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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