

Volume 31, Issue 1**Research Announcement****A VAR analysis of FDI and environmental regulation: China's case**

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This paper employs impulse response function of VAR model and the estimation variance decomposition method to investigate the two-way dynamic relationship between environmental regulation and FDI during 1985 to 2009. The result of generalized impulse response shows The impact effects of environmental regulation exerting to FDI become less and less in long-term., which verifies 'hypothesis of pollution heaven'. The inverse U-shape curve of 'environmental regulation-- FDI' depends on the choice of regulation indicators. Furthermore, The positive impulse response shows the inflows of FDI would cause the deterioration of ecology and the intervene of governments, which gives pressure to the transformation of environmental regulation standard.

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