

Identifying FDI Spillovers

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Abstract

This paper improves on the strategy used in the literature to identify the spillover effect of horizontal FDI by taking advantage of the plausibly exogenous relaxation of FDI regulations upon China's WTO accession at the end of 2001. In addition, we evaluate the two prevailing explanations (the agglomeration effect versus the competition effect, and the absorptive capacity of domestic firms) for FDI spillovers. Finally, we use an array of performance measures, including TFP, exporting performance, wages, R&D investment, and firm survival, to offer a fuller picture of the specific areas where the presence of foreign multinationals may benefit or harm domestic firms.

Keywords: FDI Spillovers; Difference-in-Differences; Agglomeration Effect; Competition Effect; Absorptive Capacity; China

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