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# 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 foreign direct investment (FDI) by taking advantage of the plausibly exogenous relaxation of FDI regulations on China's World Trade Organization accession at the end of 2001. In addition, to understand the (aggregate) FDI spillover effect, the paper evaluates two underlying explanations (the agglomeration effect versus the competition effect, the former of which is further moderated by the absorptive capacity of domestic firms) by distinguishing different types of FDI along various dimensions. Finally, the analysis uses an array of performance measures, including total factor productivity, exporting performance, wages, R&D investment, and firm survival, with one single data set to offer a fuller and more nuanced picture of the impact of FDI on domestic firms.

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

**JEL Classification:** F2, O3, R1

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