

# The Effect of Chinese FDI in Africa: Evidence From Ethiopia

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## **Abstract**

We investigate the effect Chinese foreign direct investment (FDI) in Ethiopia generated by changes in China's export taxes. As Chinese firms face higher sector-specific export taxes, they increase their FDI in Ethiopian cities specialized in the same sector. Such variation is combined with the universe of FDI projects, the census of manufacturing firms and a city panel of satellite lights. An increase in Chinese FDI in a city-sector induces: 1) competing firms to shrink, as output prices drop; 2) up/downstream firms to expand; 3) an estimated zero effect on the local economy.