“The internationalization process of firms: from exports to FDI?”

Discussion by Emanuel Ornelas

Is the Uppsala model of “internationalization” right?

- Model of experimentation based on Albornoz et al.’s “Sequential Exporting”
- Ordered probit and multinomial logit regressions
- Survival analysis

Model

Excellent!

Model – a few questions

- Prop. 1: ‘Firm first exports, then does FDI. *The switch to FDI is more likely if trade costs are higher and FDI fixed costs lower*.’
  - Also factors that make FDI at t=1 more likely.

- What is then the key prediction of the model?
  - Is it that export experience is more important before FDI when there is more uncertainty?
  - When products are more differentiated?
  - When institutional environment is more unstable?

  - Should most of the learning about your profitability at i take place in 1 year, 2 years, or 10 years?

Model – a few questions

- Will a firm ever de-invest? Prop. 2: ‘*No*.’
  - Result stems from implicit (?) assumption that $\mu \geq 0$, but not clear why that needs to be the case
    - Carrefour in Asia.
  - If $\mu < 0$ is possible, then exit after FDI > 0 is possible.

Model – further implications?

- Trade liberalization => more experimentation through exporting => more FDI (with a lag)
  - ➢ Lower tariffs and *more* (horizontal) FDI.

- FDI liberalization => more FDI (among those exporting) + more experimentation => more exports (even in short run)
  - ➢ Can SM expansion in ’04 be explored in this context (as a ↓ in FDI costs)?

Empirics

- Initial questions:
  - Firms export to ***11*** countries on average?
    - And to ***7*** outside the SM?
    - ***63***% of firms export?
    - ➢ Are numbers big because only with +5 employees?
  - Table 3 on FDI entry: no de-investment ever?
  - Destination FEs *or* country-level variables
    - Don’t some country-level variables vary over time?
    - Why not year-destination FEs?

Ordered probit

- Sample: firms that exported at least once in sample
  - Why are purely domestic firms out?
- Does export experience at i (= any positive export to i between t-1 and t-4) help to explain:
  - Positive exports to i at t? *Yes*
  - FDI in i at t? *Yes*

What is being captured?

- Vertical and horizontal FDI
- But assume horizontal FDI only
  - Still, firms can serve a market through both FDI and exporting (e.g. if there are firm-specific demand shocks and cap. constraints)
  - Interest here is on whether previous success as exporter => FDI
    - Focus on *initial* FDI in a market

Survival analysis

- Sample: firm-country pairs where firms are new exporters to the country

- Does more export experience at i (=number of years with exports>0 to i) help to explain ΔFDI>0? *Yes*
  - Among the firms that started (not too long ago) to export to a market, those that have been there *longer* are more likely to do FDI.

Some suggestions…

- Proxy uncertainty (e.g. as suggested)
  - Are new exporters more likely (than old exporters in same location; than non-exporters to that location) to have ΔFDI>0 when uncertainty is higher?
- Are firms whose exports ↑ fast to a market more likely to do FDI?
  - Is this particularly important for new exporters?

Sample?

Export experience upon FDI entry

Number of years	Experience1 Frequency	Experience2 Frequency
1	23	16
2	12	11
3	8	11
4	2	5
5	2	2
6	2	3
7	4	1
8	4	5
9	3	6
10	0	0
11	1	1
Total	61	61

Details

- Discussion of figures 1 and 2?
- Literature: trade dynamics with incomplete information: Araujo & Ornelas 2007
- How frequent is the "gap" problem (FDI={1,0,1})?
- Estimated cutoff points => FDI is 'rare'
  - How rare? (what probability?)
- Do MNFs register (or avoid registering) in Belgium because of tax issues?