“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 $\Delta\text{FDI}>0$? 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 $\Delta \text{FDI}>0$ 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?

<table>
<thead>
<tr>
<th>Number of years</th>
<th>Experience1 Frequency</th>
<th>Experience2 Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>23</td>
<td>16</td>
</tr>
<tr>
<td>2</td>
<td>12</td>
<td>11</td>
</tr>
<tr>
<td>3</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>4</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>5</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>6</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>7</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>8</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>9</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>10</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>11</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>61</strong></td>
<td><strong>61</strong></td>
</tr>
</tbody>
</table>
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?