Discussion

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Summary

- Both papers adapt Helpman, Melitz and Yeaple (HMY 2004) model of heterogeneous firms facing the proximity-concentration tradeoff.
- Use micro firm-level data from various sources
- But very different policy perspectives
  - Cheng et al attribute outward FDI from China to institutional distortions
  - Lu and Zeng consider firm internationalization as a sign of a maturing economy.
- Lessons apply to oFDI from other emerging countries as well

Outward FDI and Domestic input distortions: Evidence from Chinese Firms

by Cheng Chen, Wei Tian and Miaojie Yu

- First systematic investigation of the impact of institutional distortions in source country on OFDI.
  - Institutional distortions in host country more widely explored
- Use a very rich micro dataset matching detailed firm-level information from a number of sources.
- Examine the puzzling observation: private domestic firms are more productive, but private MNCs are less productive than SO MNCs
- Policy implication: Outward FDI not necessarily an economic blessing but may be like 'capital flight/round tripping ?
  - Athukorala 2009 documents the same phenomena for India]

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- Departure from the HMY (2004) model: An input price wedge between SOEs and private firms in the source country
- The institutional arbitrage leads to a selection reversal in the FDI market
  - The productivity cut-off is lower for private firms in FDI market.
  - Absolute size premium for SO MNCs
  - Relative size premium for SO MNCs
  - Private MNCs allocate more sales in foreign market
- The predictions of the model are generally consistent with stylized facts and the empirical evidence presented.

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- The sorting pattern of exporting private firms and exporting SOEs:
  - The productivity cutoff is higher for private firms in export market (Prop 1), why then is the absolute and relative size of private exporting firms smaller (i.e. why is there an absolute and relative size premium for exporting SOEs (Prop 2 and 3)] ?
  - The input price distortions should affect private firms that serve both the domestic and export market in the same way.
  - Absolute and relative size premium should only exist for SO MNCs ?
  - The intuition on how private exporting firms fit into the framework not totally clear.

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- More generally, the proximity-concentration trade-off in the context of the input price distortion at home (exports versus FDI) could be explored more.
- Empirically, does the data allow using the ratio of FDI sales to exports as a dependent variable as in HMY 2004 to explore further ?
- Could it be possible to investigate Chinese OFDI by destination country and sector ?
- How do input distortions effect vertical and export platform OFDI ?

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Table 5: Private firms are more to undertake likely to FDI (2000-08)

Regressand: FDI Indicator	LPM	LPM	Probit	Logit	Complementary Log-Log	Rare Event Logit
Variable:	(1)	(2)	(3)	(4)	(5)	(6)
SOE Indicator	-0.002**	-0.003**	-0.268***	-0.703***	-0.628**	-0.975***
	(-2.09)	(-2.56)	(-2.66)	(-2.71)	(-2.56)	(-9.50)
Firm TFP	0.001***	0.001***	0.043**	0.140**	0.146**	0.493***
	(3.96)	(3.31)	(2.25)	(2.16)	(2.15)	(28.22)
Log Firm Labor	0.003***	0.003***	0.232***	0.606***	0.566***	0.535***
	(6.52)	(5.34)	(12.11)	(10.69)	(8.90)	(36.78)
Export Indicator	0.004***	0.006***	0.426***	1.150***	1.156***	1.154***
	(7.45)	(12.60)	(8.49)	(6.07)	(6.13)	(27.01)
Foreign Firms Dropped	No	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	No	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effects	No	Yes	Yes	Yes	Yes	Yes
Number of Observations	1,140,824	899,910	898,800	898,800	898,800	899,910

- Sign of export indicator - could distribution FDI be removed from the data ?
- Could the state capital intensity for Zhejiang province be used as a robustness check?

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Table 8: Change in Firm Size in Response to Investment Liberalization

Regressand:	FDI firms total sales		FDI firm's total capital	
Type of FDI:	(using ORBIS data)		FDI firms	Production FDI
	(1)	(2)	(3)	(4)
Log License Costs	-0.004*	-0.005**	-0.002*	-0.002***
	(-1.79)	(-2.11)	(-1.86)	(-3.17)
Log License Costs× SOE Indicator		0.014*		
		(1.79)		
Log License Costs			0.100*	0.098*
× State-capital Intensity			(1.64)	(1.65)
Year-specific Fixed Effects	Yes	Yes	Yes	Yes
Industry-specific Fixed Effects	Yes	Yes	Yes	Yes
Year × Industry Fixed Effects	Yes	Yes	No	No
Observations	229	229	180	32
R-squared	0.45	0.50	0.04	0.05

- Interpretation of the interaction term: The SOE Indicator needs to be controlled separately to capture the difference in impact.

Financing Constraints and Firm Internalization

by Yue Lu and Ka Zeng

- Introduces financial heterogeneity into HMY promixity-concentration tradeoff model to analyze firm choice between OFDI and exports simultaneously
  - Other studies analyze OFDI and exports seperately.
- Uses a classic firm-level model that leads to testable comparative static predictions.
  - The assumption that drives the comparative static prediction $(\frac{d\hat{a}_{OFDI>EX}}{dm} > 0)$: $f_{OFDI} > f_{EX}$
- Combines and cleans firm level data from various sources.
- The econometric analysis is in line with the comparative static predictions.
- Conclusion: Just as the most productive firms engage in FDI, also those with the strongest financing capabilities.

Financing Constraints and Firm Internalization

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- Data:
  - Descriptive statistics and stylized facts.
  - Rationale for data cleaning.
- Calculation of firm productivity: Why not use Olley-Pakes methodology as is standard ?
- Dependant Variable: Can the ratio of FDI sales to exports be used ?
- Control variables:
  - ‘proximity-concentration’ variables (e.g. measures of trade costs).
  - Other measures for dispersion (e.g. firm size)

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Dependent Variable	(1)		(2)		(3)	
	Exporter	OFDI firm	Exporter	OFDI firm	Exporter	OFDI firm
External financing capacity	12.50***	9.561***	3.539***	5.658***	11.35***	11.52***
	(11.61)	(6.23)	(8.49)	(8.39)	(15.46)	(10.98)
Internal financing capacity	0.397***	1.122***	0.402***	1.125***	0.411***	1.153***
	(12.56)	(10.35)	(12.73)	(10.38)	(13.02)	(10.66)
TFP	0.111***	0.245***	0.111***	0.247***	0.141***	0.268***
	(16.92)	(9.14)	(16.83)	(9.28)	(20.88)	(10.23)
External financing capacity * Dependence on bank loans	-0.898***	-0.264				
	(-8.75)	(-1.77)				
External financing capacity * Dependence on subsidies			1.194*	2.231*		
			(1.99)	(2.26)		
External financing capacity * Regional financial development					-21.01***	-11.17***
					(-12.62)	(-4.96)
Constant	-3.191***	-7.141***	-3.195***	-7.148***	-3.324***	-7.268***
	(-97.46)	(-54.42)	(-97.32)	(-54.51)	(-103.30)	(-56.28)
Control variables	Yes		Yes		Yes	
Sector fixed effect	No		No		Yes	
Region fixed effect	Yes		Yes		No	
Observations	179,807		179,807		179,807	
Pseudo R^2	0.187		0.187		0.182	

Financing Constraints and Firm Internalization

by Yue Lu and Ka Zeng

- Only 60,000 exporting firms, and few thousand that engage in oFDI, in a sample of 179,807
  - how to differentiate between domestic firms and MNCs in column (1), and domestic firms and exporters in column (2) ?
- Should test the statistical significance of the difference in coefficients between the 'exporter' and 'oFDI' columns given that the entire analysis is based on the comparison.
- Interpretation of the interaction: both variables in the interaction need to be separately controlled for.

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