Discussion for Gumpert, Moxnes, Ramondo, and Tintelnot (2016) “Multinational Firms and Export Dynamics”

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Costs of FDI

- This paper examines entry costs for multinational firms (FDI).
- The topic is policy-relevant and important for METI and RIETI.
  - Japan: large imports, but very low level of inward FDI.
- This paper provides
  - New evidence on large sunk costs for FDI entry (FDI sunk costs).
  - A new model for quantifying FDI sunk costs.
- The paper seems very useful for understanding barriers for inward FDI to Japan.

FDI Sunk Costs: New Facts

- New stylized facts indicating FDI sunk costs
  - Comparison of exit dynamics of FDI and export
- FDI is much more persistent than export.
  - Exit rate for first few years is lower for FDI than exports.
  - FDI exit is less sensitive to destination characteristics than export exit.
  - Robust across multiple data sources: Norway, France and Germany.

FDI Sunk Costs: New Model and Calibration

- A new model for quantifying FDI sunk costs
    - Helpman, Melitz and Yeaple + FDI sunk costs + stochastic productivity
    - "A band of inaction" for FDI entry and exit

- FDI sunk costs are calibrated 60 times higher than per-year export fixed costs!

Comment 1: Export-platform FDI

- In a two country world, export and FDI are mutually exclusive ways to supply to the foreign market.
- In a world with more than two countries, FDI may be export-platform type that intends to export to multiple destinations.
- Export-platform FDI naturally seems bigger and more persistent than exporting.

Comment 2: Industry Level Analysis

- What constitutes sunk costs?
- FDI entry costs may be related with industry characteristics:
  - Capital intensity
  - M&A/Greenfield FDI share (liquidity of FDI assets)
  - Regulation, non-tariff barriers
- Would suggest how to reduce barriers for inward FDI.