Exports vs. Foreign Direct Investments: evidence from cross-country industry data*

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Abstract
The process of globalization has been characterized by the simultaneous increase in arms-length trade and foreign direct investments (FDIs), but the connection between the two market entry modes is not obvious. Recent advances in trade theory trace back different patterns of internationalization to innate differences in productivity levels between firms, and predicts a productivity ordering of firms according to their degree of participation in international activities. In this paper we use a very large data set on bilateral exports and FDIs – measured by Mergers and Acquisitions – for 25 domestic countries, 91 counterparts and 57 industries to test the relative incidence of trade and FDIs with respect to two major characteristics: (i) the presence of large firms in a sector – that according to Helpman, Melitz and Yeaple (2004) is positively associated with a higher incidence of FDIs relative to trade – and (ii) average sector productivity. We find sound evidence that sectors with a higher number of large firms are more likely to access foreign markets using FDIs flows. Further, we show that more productive sectors on average have a relatively higher incidence of trade relative to FDIs. We were also able to shed some light on the empirical linkages between internationalization choices and a variety of economic variables.