

## **International Trade, Foreign Direct Investment and Corporate Strategies (Trade, FDI and Corporate Strategies)**

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Over the last ten years the development of International Trade theory is defined by the heterogeneous firms' framework. The seminal work of Melitz (Melitz, 2003) has put a theoretical foundation of this approach while empirical works of Bernard, Jensen, Schott, Pavcnik (Bernard and Jensen, 1999, Bernard, Jensen and Schott, 2003, Pavcnik, 2002) and others demonstrated its empirical relevance. Heterogeneity of firms in their productivity levels along with positive fixed costs of exporting are the two main assumptions that define the results.

One of the important implications of this approach is that redistribution properties of international trade policy have one more dimension – intra-industry one. Namely, trade liberalization in a particular industry leads to reallocation of factors toward more productive firms in the industry. That is, the market share of less productive domestic firms declines in favor of the market share of more productive domestic firms. A direct result of this reallocation is the increase in the productivity of the whole industry. This inference could not be obtained in the representative firm approach. Empirical estimations indicate that intra-industry effects of international trade could be more significant than inter-industry ones.

### **Trade/FDI and Costs of Accessing Foreign Markets:**

So far the issue of fixed costs of exporting is not very well explored. We know little about the composition of these costs, their values and which policy instruments can affect them. Survey of exporting firms in Russia<sup>1</sup> indicates that information costs are among the most severe ones. Then the important question is what type of information is especially important for export transactions to take place. Among other candidates the literature suggests financial, regulatory, labor and other costs. One of the goals of this project is the empirical and theoretical study of the relevance of

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<sup>1</sup> Check the questionnaires of Russian exporters (<https://dl.dropboxusercontent.com/u/55024954/Quest%20exporters.pdf>) and potential exporters (<https://dl.dropboxusercontent.com/u/55024954/Quest%20potential%20exporters.pdf>) to get a flavor of available data.

various costs for exporters. Export of Russian firms over 2000-2010 and firm-level data from other countries will be used in empirical studies.

### **Trade/FDI and Innovation and Organizational Structure:**

Additionally, the literature has stipulated how trade liberalization creates incentives to innovate and increase productivity and performance in firms by lowering trade costs and/or expanding export markets (Aw, Roberts, and Xu, 2010, Bustos, 2011, Verhoogen, 2008, among others). Similarly, multinationals are known to give access to larger markets and lower costs, so subsidiaries of multinational companies also innovate more and perform better (Criscuolo and Martin, 2009, Arnold and Javorcik, 2009, Guadalupe, Kuzmina, and Thomas, 2012, among others). One could therefore explore which firms become targets of FDI, what are the sources of multinationals advantage, how internal organization of the firm differs between foreign and domestic firms, how FDI shapes labor contracts within firms. In an empirical project covering one of these topics one could use either Russia or OECD data.

### **Trade/FDI and Other Corporate Strategies:**

It is also important to emphasize that although various fields of economics typically specialize in looking at firms from one particular angle, ultimately most corporate strategies are endogenous to each other under the natural dome of value/profit maximization. This means that firm's relationships with suppliers and employees (in input markets), competitors, clients, and retailers (in output markets), managers, creditors and owners (corporate angle: governance, capital structure and dividend policy), may be all interrelated. From this perspective it could be interesting to study whether firms that export or are parts of multinationals do things differently from others and why (e.g. by diversification of risks or by access to larger markets, etc), and vice versa – whether any of these corporate strategies affect the choice and the modes of exporting or becoming a part of a multinational.

### **Some potential topics for master theses are:**

1. (Empirical) The analysis of intra-industry production and export structure of Russian economy and its evolution over time. The goal of this project is the formulation of stylized facts about intra-industry development of Russian economy and determination of the major forces behind it.

2. (Empirical) The analysis of Russian intra-industry export structure and its evolution over time. The effect of Ruble appreciation of 2002-2007 on the intra-industrial export diversification.
3. (Empirical and/or theoretical) Costs of exporting analysis: informational aspects.
4. (Empirical and/or theoretical) Costs of exporting analysis: contractual aspects.
5. (Theoretical) The analysis of inter-industry diversification in the economy with heterogeneous firms.
6. (Empirical and/or theoretical) Role of intermediaries in international trade: information vs. technical cost reduction
7. (Empirical) The analysis of innovation among Russian exporters.
8. (Empirical) Sources of multinational advantage: target characteristics vs ex post innovation.
9. (Empirical) Foreign Direct Investment and internal organization of the firm.
10. (Empirical and/or theoretical) Exporting and capital structure of the firm.

### **Some Related Literature**

#### **Theory:**

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### **Empirics:**

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