Which Indian software exporters engaged in outward FDI?

Rudrani Bhattacharya, Ila Patnaik and Ajay Shah

Discussant : Sourafel Girma

Nottingham University Business School

Paper's contributions

1. A neat demonstration how the HMY prediction of productivity ordering can reversed under quite plausible assumptions.

2. Provide empirical evidence based on a service sector industry from a major emerging economy.

Comments on theory part

1. More elaboration regarding the relationship between consumer's perceived risk and the probability parameters in the foreign demand equations (e.g. how is it different from a more general "home-bias" story?).

2. Is the zero transportation condition crucial for the punch line?

3. Probably need to relax the "no wage differentials" assumptions.

4. How is the work related to the "technology-seeking" FDI literature?

Comments on empirical part

1. It is not clear how the "natural experiment" was used in the identification strategy ("normally" a pre-post type of analysis is conducted).

2. As per the theory the source of heterogeneity is random. But there is a case to argue that productivity (thus the decision to invest abroad) is some pre-2000 level firm characteristics

3. Does the magnitude of outward FDI matter?

Comments on empirical part

4. Have you controlled for inward FDI?

5. How to isolate the "BPS effect" from "technology-seeking FDI" effect? (or are they observationally equivalent?).

6. Any reason why the stochastic dominance test can't be applied to the fixed effects and time-invariant SFA productivity measures? (it can even be argued that HMY/BPS theory is essentially a fixed productivity-differential story).

Supply and demand
How about the endogeneity problem?

Comments on empirical part

7. In the fixed effects production function and time-invariant SFA models, FDI "explains" productivity differentials and not the other way round! (is this incentive enough to pursue more rigorous evaluation techniques?).