Comments on "Serving abroad: Export, M&A, and greenfield investment"

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This is a fascinating piece of work and I have enjoyed a lot reading it.

Congratulations!!

It is very well written.

The paper has many assets...

ASSET 1: It considers many types of entry decisions simultaneously.

- It goes beyond the classical decision of exports vs FDI (by differentiating between two types of FDI, namely M&As and horizontal FDI).
- This makes the analysis much closer to the real world.
- It is an important extension of the analysis of Helpman et al. (2004) (Helpman, E., Melitz, M. J. and Yeaple, S. R. (2004), "Exports versus FDI with heterogeneous firms", American Economic Review, 94, 300-316). Even though it builds on that model.

ASSET 2: it is very original because it looks *within* the industry:

- **It is a very interesting extension of the analysis Nocke and Yeaple (2007) published in the Journal of International Economics, which looked at differences across industries in their patterns of entry decisions (exports, horizontal FDI or M&As).**
- **The distinction between two FDI types (greenfield and M&A) is absent in Helpman et al. (2004)**
- **Nocke and yeaple's (2007) findings suggest that the sorting of the more efficient entry type varies across industries and in some industries contradicts Helpman's et al (2004) findings.**

[in industries where the source of firm heterogeneity is due to the internationally mobile factors (such as R&D intensive technologies), firms involved in both M&A and greenfield FDI investment are more efficient than exporters. By contrast, in industries where the source of firm heterogeneity is not internationally mobile (such as firm marketing expertise), firms undertaking greenfield FDI are more efficient than exporters but those engaging in cross-border M&A are less efficient than exporters; this latter result would contradict the prediction of Helpman et al. (2004) as happens with some of the findings of this paper.]

- **We have now many analyses available that look at heterogeneity *across industries* but very few look *within the industry*.**

- **The present paper provides interesting evidence to an important assertion made Bernard et al., (2007a) published in the Journal of Economic Perspectives say that It seems that there is empirical evidence that prices within the product categories traded "vary substantially and systematically across countries".**

ASSET 3: NOT LUMPING SO MANY SECTORS TOGETHER, BUT ONE SERVICES SECTOR

- **Nockes and yeaple's (2007) reach an important conclusion because of these differences across industries and it is that, accordingly, "the common procedure of pooling industries in regression analysis is inappropriate as the mapping from firm characteristics to mode choices differs qualitatively across industries" (Nocke and Yeaple, 2007, p. 378).**

- **The present paper is nice in concentrating in a very important services sector and contrast with other previous analyses which lump together in their data many different**

manufacturing sectors (e.g., Ramondo and Rodríguez-Clare, 2013; Ramondo, 2014), apart from the fact that you add M&As, you also concentrate on one sector, which is a very clean exercise.

- I think the authors could exploit this a bit more. The authors give some details on the importance of "Professional services"in p. 19… I think they could emphasize that it is a very important sector. It is probably the largest services sector after the public sector. The activities abroad of the latter are negligible. Maybe you should also provide the exact codes you are using according to some sort of classification.

ASSET 4: although well-grounded theoretically it is not a purely theoretical model, since it includes structural estimations.

- **Model predictions match well the German data that in this sector the average exporter is larger than the average firm entering with greenfield investment and average firm acquiring a foreign firm (p.22)**

- **I find it also nice that when explaining the theoretical framework they provide many real world examples of different costs modelled (for example when explaining entry costs of exporting (p. 10) they mention restrictions to the movement of people, licensing discrimination, or non-perfect regulatory transparency.**

Some other ideas:

- Any policy implications from this analysis?
- The provision of services intermediates is very important for other sectors in the economy:
  - For example there is empirical evidence of FDI in services leading to higher productivity in other sectors of the economy using panel data and controlling for the endogeneity of FDI (e.g., Fernandes and Paunov, 2012; Arnold et al., 2008).
  - An increase in varieties via services imports also has positive impacts (e.g., Broda and Weinstein, 2006 and Goldberg et al, 2009).

- **I was a bit puzzled with the statement in the abstract: "Simulation of the service-trade liberalizationbetween the EU and the US, as planned for TTIP (Transatlantic Trade and Investment Partnership), shows that the reduction of non-tariff trade barriers and introduction of quality standards reallocate quality across entry alternatives, as well as make FDI a more prominent entry type."**

  It is a bit counterintuitive that lowering NTBs to trade increases horizontal FDI…maybe this could be a rephrase and explained in more detail in the analysis of the impact of TTIP

- **I was wondering, what barriers do you consider related to TTIP because apart from NTBs to trade (what is the source for those barriers?? There are also NTBs to FDI and maybe it would be interesting to consider them.**

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