

DISSERTATION ABSTRACT

My dissertation focuses on the quality of human capital, structural transformation, and learning by doing in foreign trade. In a series of three papers, I investigate if the patterns of foreign direct investment and comparative advantage are influenced by quality measures of human capital, and explore how trade-induced components of learning by doing can affect foreign trade.

Chapter one empirically investigates how cross-country differences in the quality of human capital, as they are captured by the conventional measures of international test score differences, influence the patterns of foreign direct investment. Using panel data covering 32 countries and the period between 1985 and 2004, I find that a host country's quality of educational attainment plays an independent role in attracting foreign direct investment. In particular, I find empirical evidence in support of the idea that the quality of human capital influences horizontal foreign direct investment even after accounting for the roles of skill and factor endowments, trade costs, investment costs and country-size and income effects. *Ceteris paribus*, an increase in the host country quality of human capital by one standard deviation of quality difference increases horizontal FDI flows from home country to host country by \$13.4 billion.

Chapter two, which is joint work with Murat Iyigun, examines the liberalization of foreign trade and its consequence on the process of structural transformation. The starting point of the empirical work is provided by Hausmann and Klinger in a 2007 *Science* article, who demonstrate how countries' export history affects their future export performance and development paths. This idea stands in stark contrast to models of comparative advantage and resource/factor abundance as the main determinants of foreign trade patterns. My empirical work is an attempt to explore the extent to which trade liberalizations and macroeconomic stability reforms provide impetus for comparative-advantage driven theories of foreign trade vs. export-history driven ideas of exports. In addition to accounting a density of the product space of a country in the patterns of comparative advantage, we control the trade liberalization dates and the cumulative open regime for 132 countries from 1985 to 2000. We then find that the speed of moving from simple poor-country goods to rich-country goods in export depends on not only having a route to nearby goods of increasingly higher value but also increasing in the cumulative years in an open regime. This result is indicative of learning-by-doing in foreign trade and lends support to the idea that export and foreign trade history matters.

Chapter three, which is joint work with Murat Iyigun, Maurice Kugler and Ernesto Stein, is an attempt to comprehensively account for the role of learning by doing in foreign trade. While there is a lot of recent research about learning on foreign trade, there does not exist a comprehensive empirical work on this topic that tries to account how important learning at the market level, at the product level, at the broader export-market level, etc. Using panel data covering 131 countries, 854 products, and the period between 1962 and 2000, we find that export experience in market-product specific level and market-specific level play significant roles in export performance, whereas learning at the product levels are not statistically important.