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Title	Exporting versus foreign direct investment: Learning through propinquity
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Abstract	This paper considers the strategic role learning plays on foreign direct investments (FDI) under demand and cost uncertainty. FDI allows a foreign firm to respond more effectively to changing local demand than if it exports. With cost uncertainty, however, FDI has a second effect. Since a foreign firm procures inputs locally as does its home country rival, the problem of learning is transformed from about its private parameter to about the common parameter, which proves harmful in both price and quantity competition. We show that FDI decisions depend on whether the firm faces relatively more demand or cost uncertainty, how differentiated the rival's product is, and to what extent inputs are locally procured.
Keywords	FDI, uncertainty, strategic, competition, access mode choice, welfare, oligopoly
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