DO GLOBAL BANKS FACILITATE FOREIGN DIRECT INVESTMENT?

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SUMMARY OF THE PAPER

- The paper investigates whether domestically-owned global banks facilitate the international expansion of domestic firms.

- Timely issue: large global banks have benefits, banking fragmentation might be costly for home-countries.

- Dataset: Dutch banking system, 1985-2002. Bilateral data on FDI, 190 destination countries.

- Methodology: tackles carefully a number of econometric issues: a) endogeneity of banking FDI; b) non-stationary of FDI; c) cross-sectional dependence; [and d) selection bias].

MAIN CONCLUSIONS

- Home global banks FDI facilitate (home) firms international expansion:
  - Only global banks' FDI (not cross-border or local lending).
  - This benefit is not provided by other foreign banks or host banks.
  - Identification strategy to overcome endogeneity: regulation of host country.
  - Rationale: global banks provide information.

- Important policy implications: global banks' retrenchment could hamper international expansion of firms (message for home-regulators).

COMMENTS AND SUGGESTIONS

1. Econometrics and global banks' benefits (from home country perspective).

2. How general are the results? Dutch banking system, 1985-2002

ECONOMETRICS & GLOBAL BANKS' BENEFITS (HOME-COUNTRY PERSPECTIVE)

- Data is censored: Global banks' FDI can be zero; non-financial FDI can be zero.

- Appendix D deals carefully with this issue, and finds that **global banks facilitate growth, not entry.**

  1. "There is no clear evidence that banking FDI makes it more likely that a multinational invests in a new host market"

  2. "Banking FDI provides more benefits for the variable costs of investment or expansion in existing markets."

- These could be the main results. Why not? How can we rationalize them?

ECONOMETRICS & GLOBAL BANKS' BENEFITS (HOME-COUNTRY PERSPECTIVE)

- Global banks provide different services for domestic firms, not only information:

  1. Working capital/short-term loans.

  2. Mitigate risks: guarantees, bid bonds, letters of credit

These services are difficult to measure, off-balance sheet &short-term

•But these services are important to grow/stay in a given market -trade finance, project finance, syndicated loans, and so on-.

•Bottom line: results of Appendix D are very sensible. They seem easy to rationalize once we acknowledge banks provide funding and mitigate risks.

HOW GENERAL ARE THE RESULTS? DUTCH BANKING SYSTEM, 1985-2002

- Can we claim that "Global banks facilitate foreign direct investment?" Or, are the results conditional on the sample?

- Results are obtained with one home national banking system (NL), for the period 1985-2002.

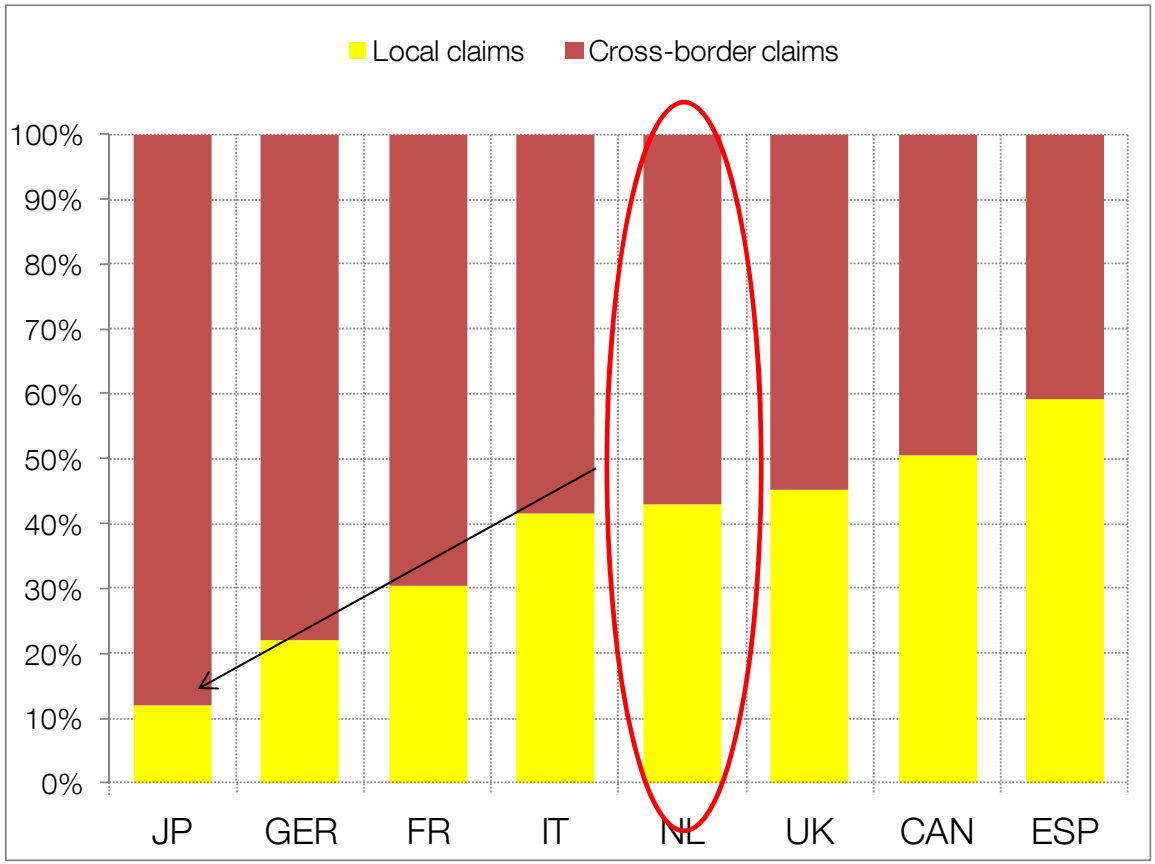
- Global banks' international expansion differs across countries, and over time. It is important to provide a description of

  1. Cross-country heterogeneity

  2. Historical evolution

HOW GENERAL ARE THE RESULTS? DUTCH BANKING SYSTEM, 1985-2002

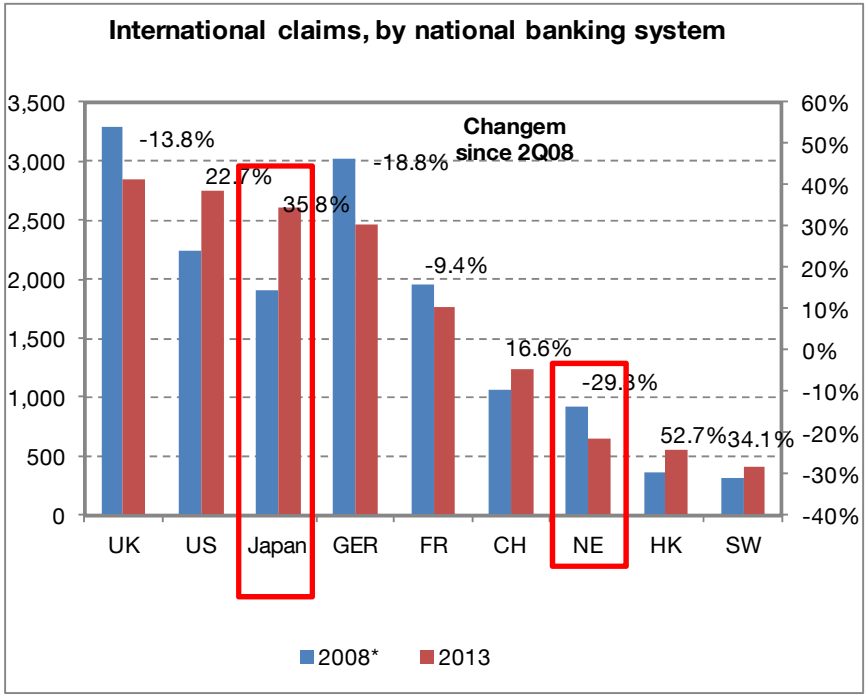
1. Cross-country heterogeneity, at the end of 2007: Japanese banks expand through cross-border lending (booked in Japan, FDI?)

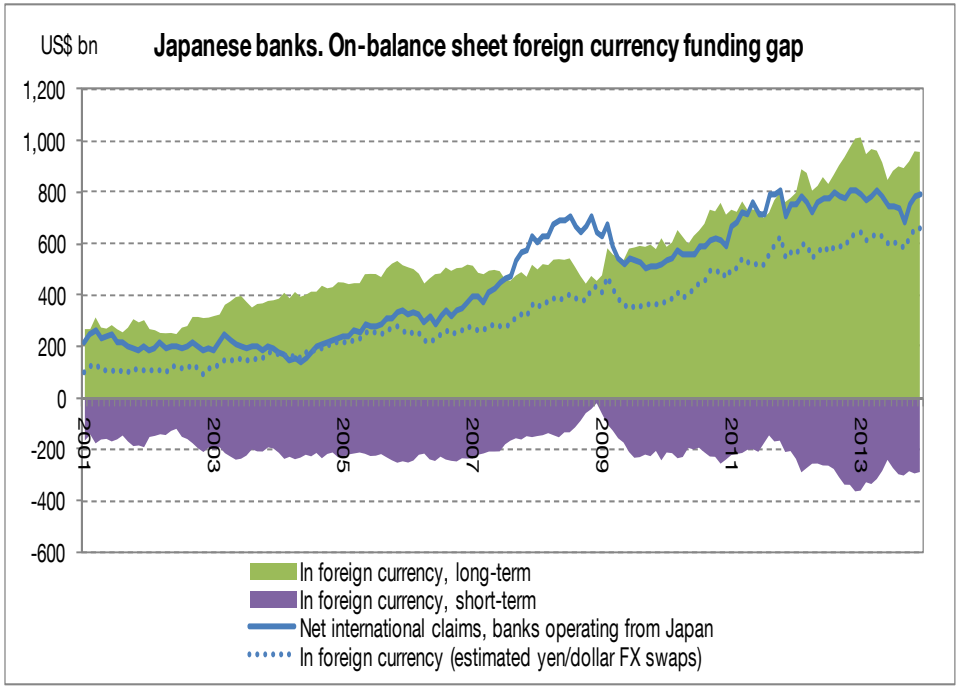


- Source: Serena and Valdeolivas (2014), following McGuire et al. (2010).

HOW GENERAL ARE THE RESULTS? DUTCH BANKING SYSTEM, 1985-2002

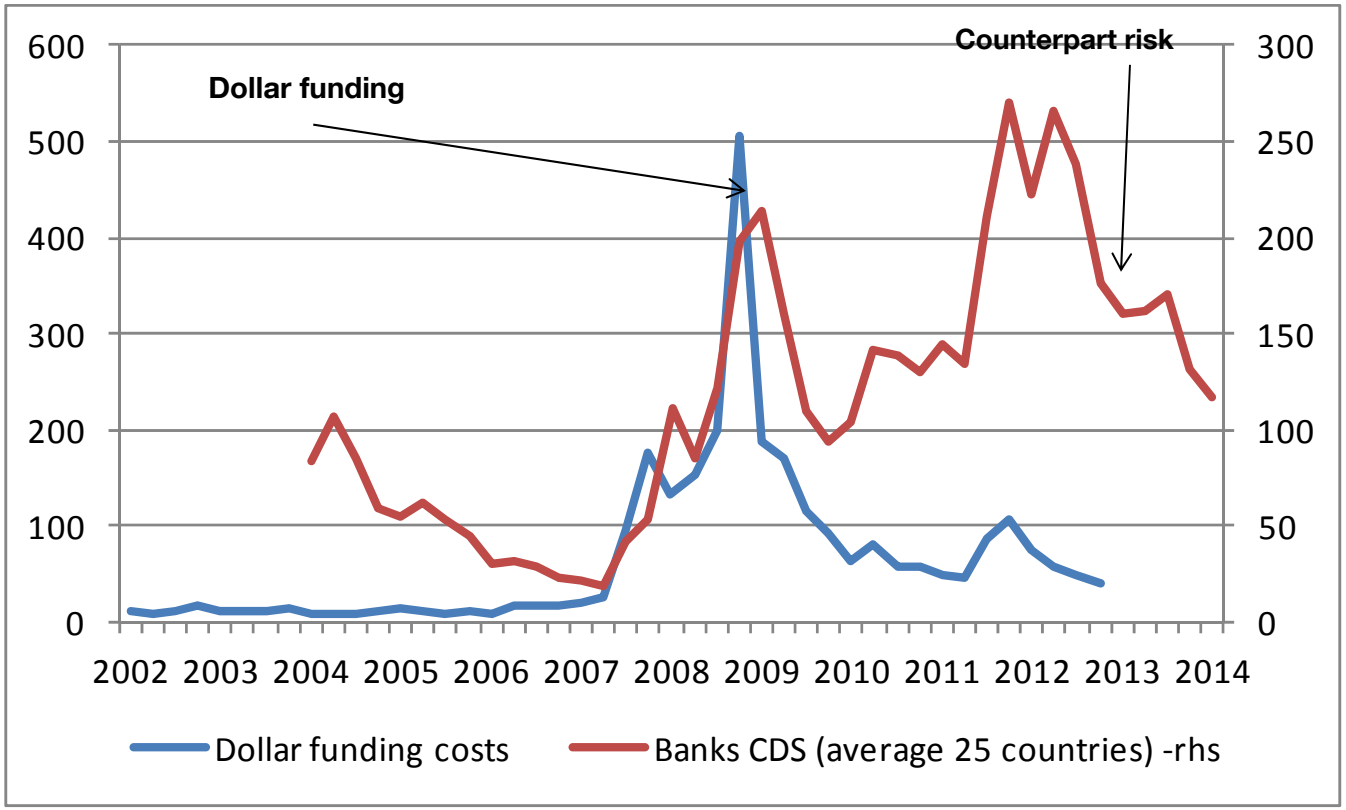
•Japanese banks are deemed to support domestic firms' expansion. They have large domestic deposits (swaps yen/foreign currency). Are the conclusions of the paper valid for Japan?





HOW GENERAL ARE THE RESULTS? DUTCH BANKING SYSTEM, 1985-2002

2. Historical evolution: the paper abstracts from financial conditions, but can global banks support multinationals with high risk aversion, or funding costs? Impact of global banks deleveraging on domestic firms' investment, trade flows, and son on (CGFS (2014)).



FINAL THOUGHTS

- Very timely question, from the perspective of home-countries. Need to understand risks of banking fragmentation.

- Econometric exercise: very careful. Appendix D could be the benchmark.

- Sensible results: global banks facilitate firms' expansion (growth). Provide important services, difficult to measure.

- How general are the results? Are they robust to other banking systems and historical periods?

  - Important to depict Dutch banks international expansion in the period under analysis

THANK YOU

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