Discussion of “Multinational Corporations and Crisis Transmission” by Ila Patnaik and Ajay Shah

7th Research Meeting, NIPFP-DEA Program on Capital Flows, New Delhi, 31 August - 1 September 2010

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Disclaimer: the views expressed here are those of the presenter and are not necessarily shared by the BIS.
The issue...

- To what extent were MNCs a powerful conduit for the propagation of the international financial crisis?
  - MNCs had greater exposure to Baa spreads than domestic firms
  - BUT, except for small MNCs, their investment exceeded domestic firms
  - MNCs were a source of relative stability for the Indian economy
1. The question....

What role did MNCs play in the transmission of the crisis to India? Two ways to answer this question:

➢ In absolute terms:
   ○ Suppose Ind. Prod. relative to trend dropped 5% and MNCs explain the largest part of this, MNCs were the main source of transmission
   ○ Could answer with existing large sample of companies (51% of GDP)

➢ In relative terms:
   ○ Are MNCs a source of insulation for the Indian economy?
Consider the following thought experiment:

- All firms are identical (ex ante), except that some choose to be MNCs and some choose to be domestic.
- Now compare the behaviour of a sample of MNCs with a sample of domestics during the crisis.
  - If MNCs were relatively countercyclical, they’re a source of stability.
  - If MNCs were relatively procyclical, they’re a source of instability.
- Not identical? Match using propensity score.
2. A match made in heaven?

- Since MNCs and domestics are not identical, need to “match” based on observable characteristics:
  - Log and square of fixed assets
  - Log and square of 0.5(assets+sales)
  - Return on assets
  - Cashflow margin
- 6 variables or 4?
- Does this really go far enough?
- Are other variables available?
2. A match made in heaven?

- MNCs self-select: firms generally start domestic and becoming MNCs reflects a strategic decision by the firm.
- To convince some that the matches are right might require more micro evidence:
  - List of matched firms
3. Price of risk or funding cost?

- Why measure exposure to Baa spread?
  - Baa spread is a measure of the price of risk
  - Baa interest rate is a measure of the cost of borrowing
4. MNCs access to funding…

- Did MNCs really have better access to funding than domestics during the recent crisis?
  - Cheong (2006): Asian MNCs during Asian crisis
  - Hericourt and Poncet (2009): Chinese MNCs, due to poor state of financial system
5. The conclusion

- MNCs are a source of stability: investment grew faster for MNCs during the crisis than domestic firms
  - What is the mechanism for this?
  - How could MNCs be a source of stability in a crisis where India was the least hard-hit large economy?