



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

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James Yetman

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?



1. The question....

- 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 $0.5(\text{assets} + \text{sales})$
 - 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

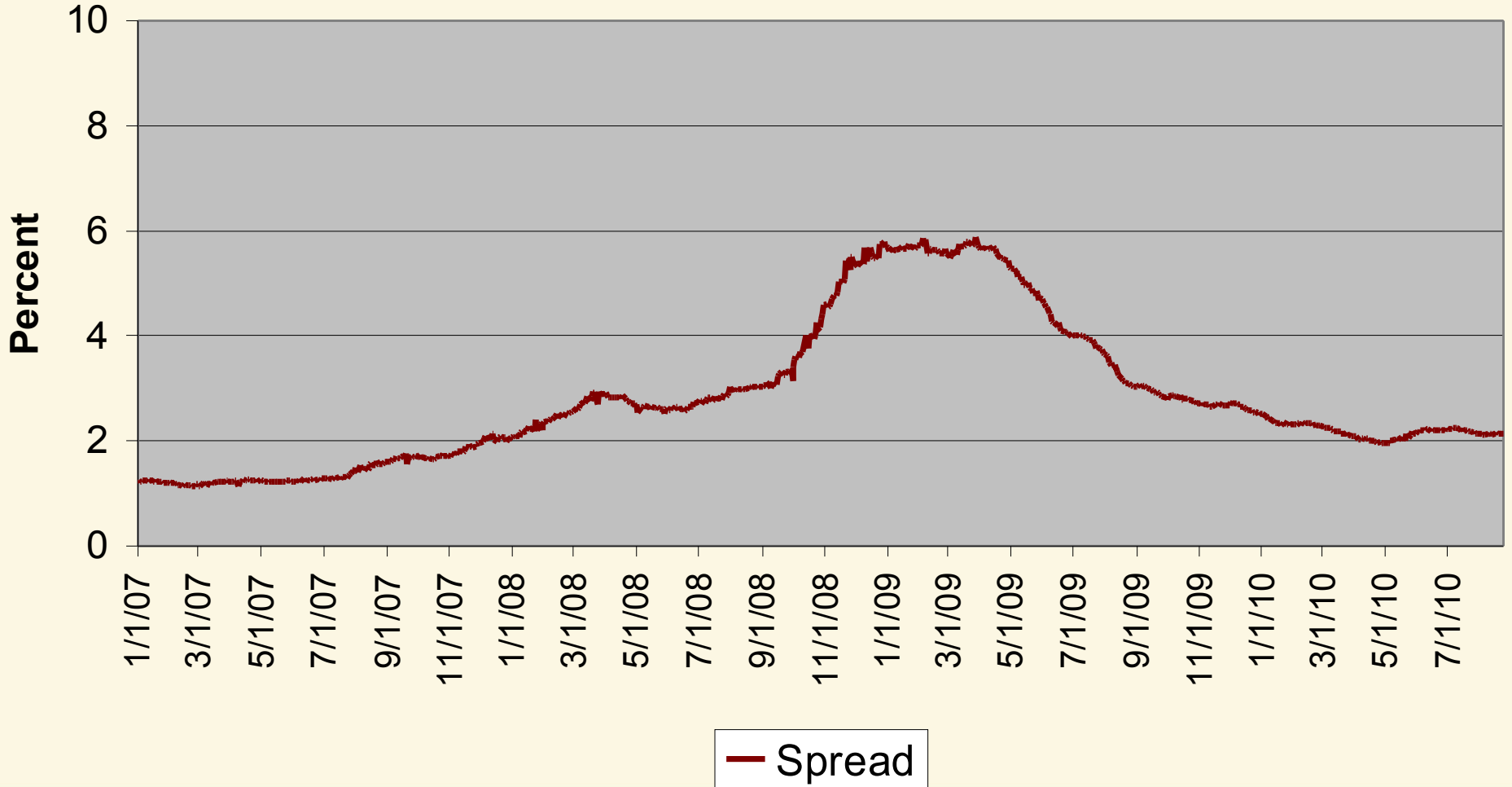


3. Price of risk or funding cost?

- 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

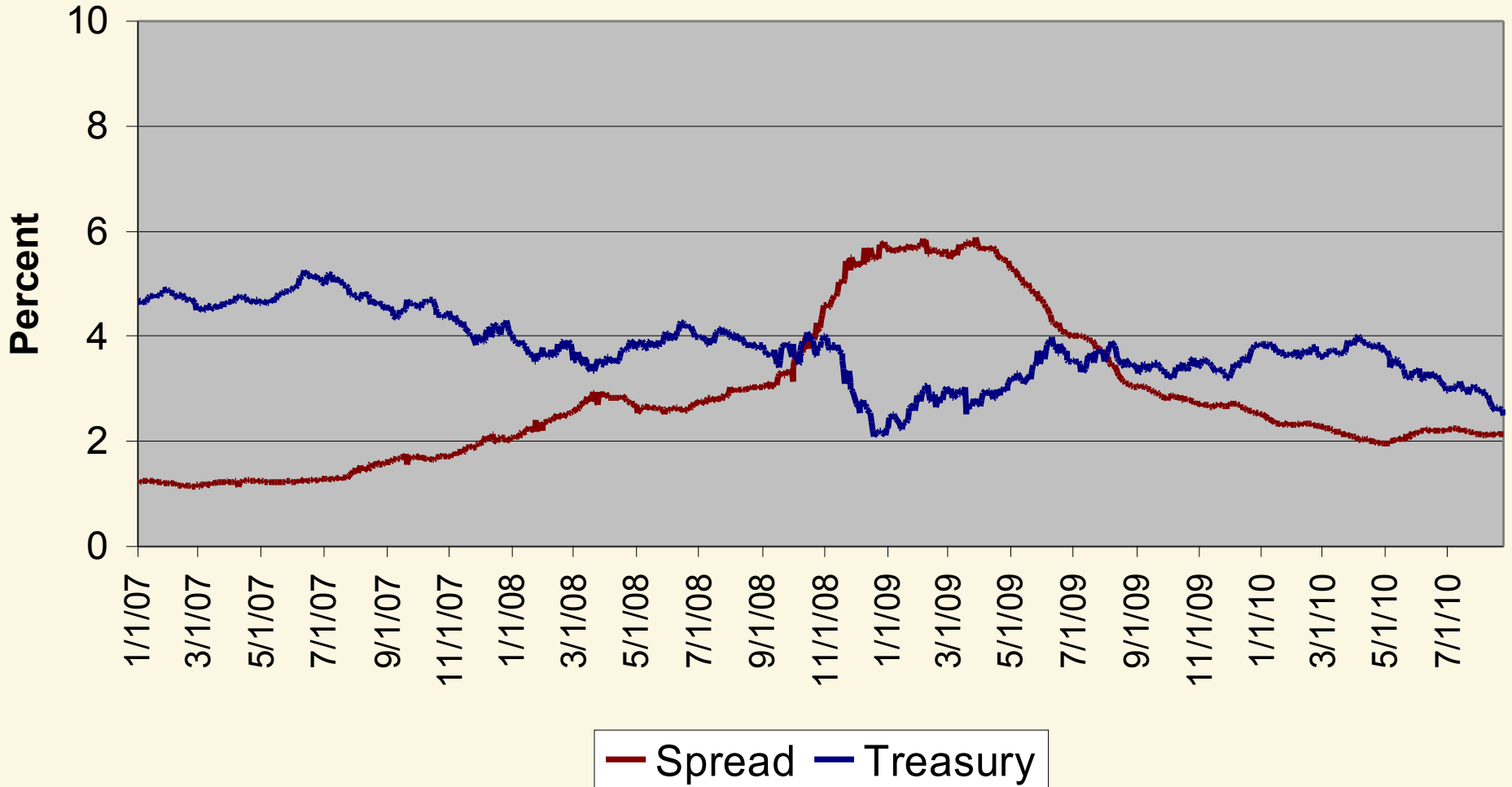


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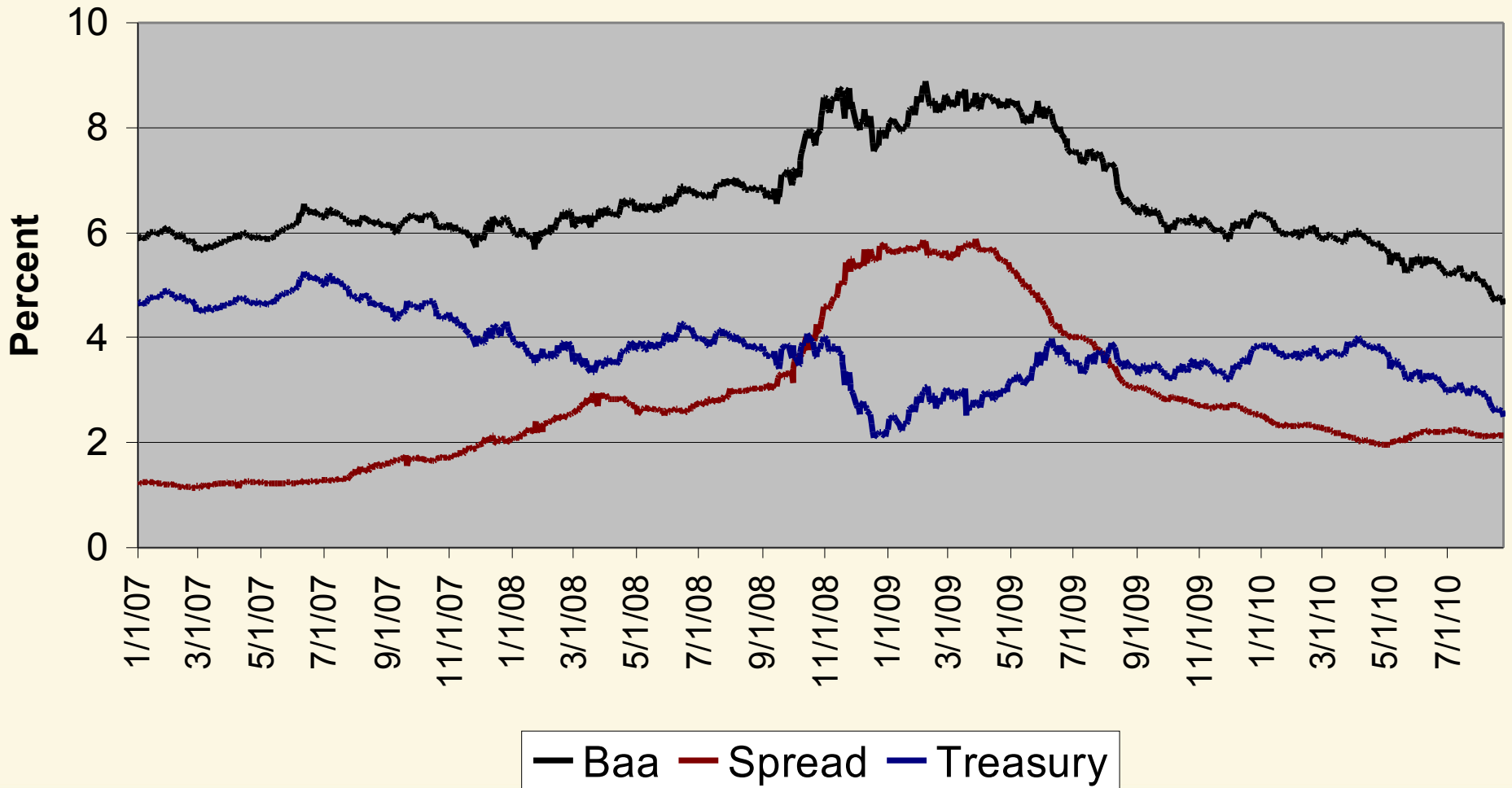


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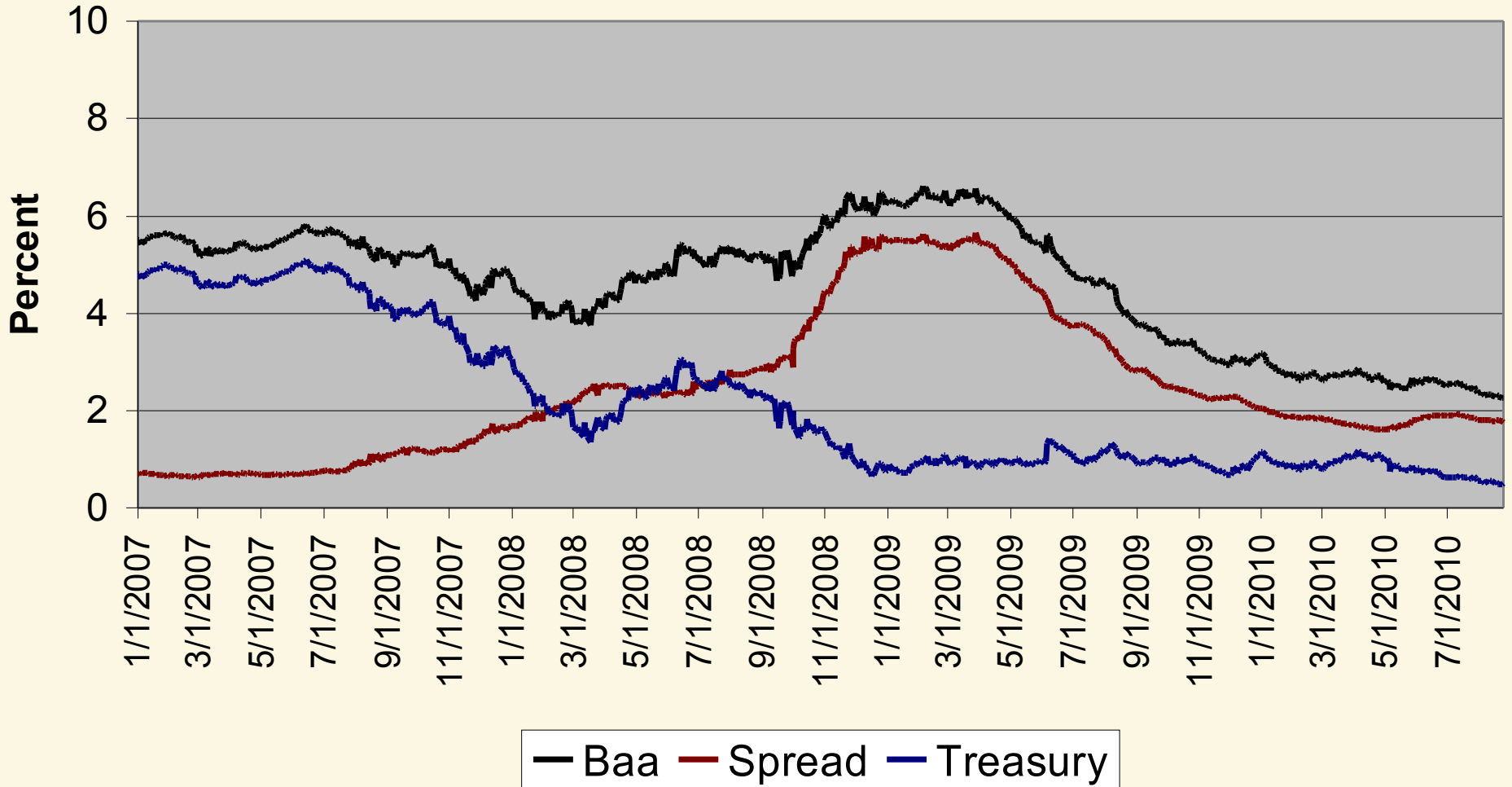


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4. MNCs access to funding...

- 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?