"Capital Flow Types, External Financing Needs, and Industrial Growth"

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Overview

- Very nice paper
- Tackles an important issue: the effects of capital flows
- Very innovative: studies effects across industries
- Nice identification strategy: external finance a-la RZ (1998)
- Lots of results
- Generates many questions
- Some for this paper
- Others for future research

What the paper does

- Effects of FDI, portfolio debt, and portfolio equity on industry-level growth across 99 countries, 1991-2007
- Computes external finance dependence for the US
- (K expenditures - cash flows from operations) / K expend.
- Tests effects of capital flows on industry growth directly and interacted by financial dependence
- Includes usual controls
- 5-year averages, pooling all data
- For different years to track evolution over time
- Four case studies: Chile, China, Korea, Turkey

Comments

- Paper exploits a nice idea
- Generates many results
- Reports all the findings without hiding information
- Rather short paper
- Drawback
  - Reader wants to know more
  - Many questions arise
- For this or other papers?

Questions

- Too many results
  - Hard to keep track, digest, and take away main messages
  - Different results for FDI, debt, equity
  - Different results over time and across specifications
  - Different results at country level
  - Paper tries to draw conclusions, but more bottom-line messages would be useful
  - Interpretation on “green” FDI difficult to digest
  - Are idiosyncratic-country results really needed?
  - How much can we extract from country-level shock?

Questions

- Aggregate flows to the country on industry-level growth
  - Flows go to all sectors
  - So lack of findings is not necessarily informative
  - Ideal test: flows to industrial sector on industry growth and/or other attributes
  - Papers that use capital raising at firm level and study firm-level effects
  - Something similar at industry level?
- Portfolio debt
  - Is it just to the private sector?
  - The fact that governments borrow might create negative link
  - Firms may also borrow more in bad times

Questions

- Results over time
  - Paper shows results by year, but 5-year averages?
  - Rolling window? If so, too much overlap. If not, what?
  - How much information can be obtained from yearly estimates?
- Endogeneity issues
  - Capital goes to countries that grow more
  - Witness Brazil, China, India now, East Asia in the 1990s
  - In fact, this is the interpretation in the paper for inflation results
  - Also “FDI … follows growth”
  - Do lags solve the problem given the 5-year window?

Questions

- Control variables can be informative
  - Private credit and savings particularly important
  - Savings driving growth, but not credit?
  - Similar to capital flows, interact them too?
  - Compare domestic financing vs. foreign one?
- Control variables as flows or stocks?
  - Put them on the same footing as capital flows
- Perhaps use gross flows too?
  - Gross flows fluctuate much more than net flows
  - Capture foreign financing
  - For example, reserve accumulation and foreign inflows

Questions

- Other possible interactions to exploit industry-level data?
  - Just uses financial dependence, maybe room to be creative
  - Can financial dependence be constructed at country level?
- High correlation between FDI and portfolio equity (.70)
  - More emphasis on FDI
  - Worth trying variables one at a time?
- Balanced sample?
  - Shed light on coverage over time and across specifications
  - Add number of countries in the table
- Possible interpretation of negative association
  - Capital flows and appreciation: is this what is going on?

Final remarks

- Paper worth reading
- Attractive area of research
- Look forward to seeing more by Joshua and his co-authors

Thank you!