Multinationals and the effectiveness of capital controls: some observations

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The Question

- Can / do Indian multinationals circumvent capital controls through the use of their internal cross-border markets that are not available to non-multinationals?

  - Focus of capital controls here only inward flows (i.e. external borrowing).

  - Period: crisis (June 2007-January 2009)
Empirical Strategy

Two approaches:

- Look at set of all firms: are firms with high exposure to international credit markets multinationals?
  - Regress stock market returns on change in Baa spread and study coefficient.

- Matching process: does the fact that a firm is multinational mean it has greater exposure to global credit markets?
  - Match MNCs to “similar” non MNCs and study difference in their returns in response to changes in external credit conditions.
Some thoughts and suggestions I

- **Approach 1**
  - Why not just include FDI dummy in main equation?
  - Would be useful if results (significance) of main equation were provided.
  - Why is difference not larger? Non FDI firms experience a drop in 16.5% decline in stock value when spread increases by 100 bps, but the MNC firms experience a decline of 18.5 percent.
Some thoughts and suggestions II

Approach 2

- Would be useful if results (significance) of equation were provided.
- A useful robustness test would be to do the matching for the MNC non exporters and non MNC non exporters. A significant difference of a similar magnitude would strengthen the finding that it is not exports but MNC-ness per se that is important.
Some thoughts and suggestions III

- Omitted variables?
  - Sectors.
  - Presence of cross listing (can be easily included in equation 3).

- Time Period
  - This should not only be a crisis phenomenon – what about tranquil times?
Thank you