International Financial Integration through Equity Markets: Which firms from Which Countries Go Global?

Claessens & Schmukler

A discussion

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Summary of findings I: Who goes abroad?

- Country Effects:
  - Larger
  - More open
  - Higher Income
  - Better macro-management
  - Worse Corporate Governance Environment

Developed

- Firm effects:
  - Large
  - Faster growth
  - More profitable
  - More foreign oriented

Summary of findings II: Effects of globalization

- Larger in Size
- Larger share of foreign sales
- Growth slows a bit
- Profitability declines a bit

Overall Comments

- Very thorough and carefully executed analysis
- Most results are reassuring rather than surprising

Related issues I

- Is the definition of “financial internationalization” comprehensive?
  - One could consider international debt
    - Expect it to be closely related to equity
- The question of government restrictions
  - Is it easier to go abroad in some countries?
  - Is it easier for foreign investors to come in into certain countries?
    - Would that affect the going abroad decision?

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Related issues II

- More fundamentally, why should firms go out?
- Can’t investors come in instead?
  - “Home bias” ?
  - Certification effects ?
- Ultimately a question of access/ transaction costs vs. expected (perceived) benefits for both parties
- Do country funds improve the situation?
  - “As at 3 March 2006, the MSCI India Index comprised 64 stocks with the largest 10 constituent stocks represented in excess of 54.5% of the total market capitalization, based on total shares in issue, of the Index. “

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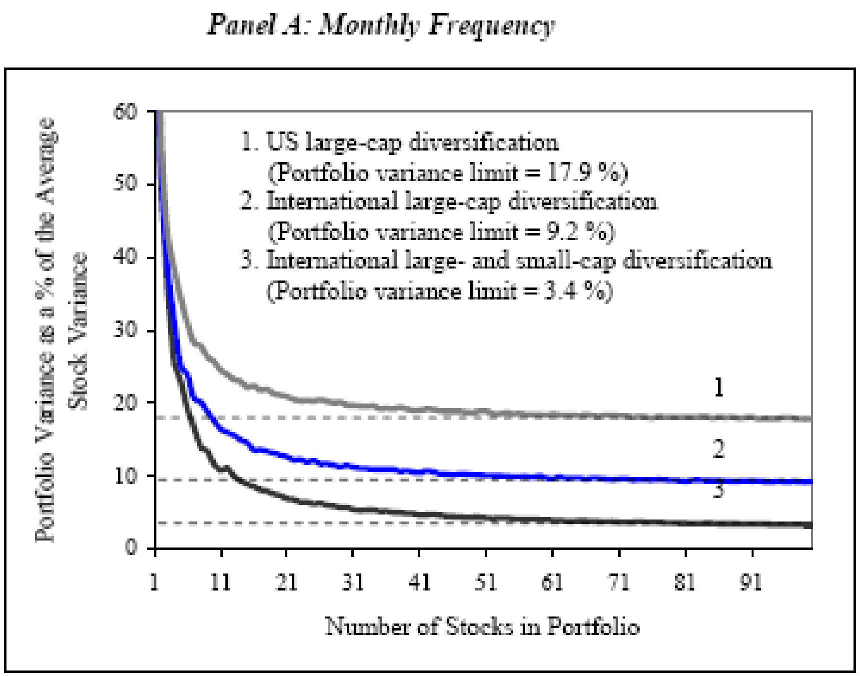
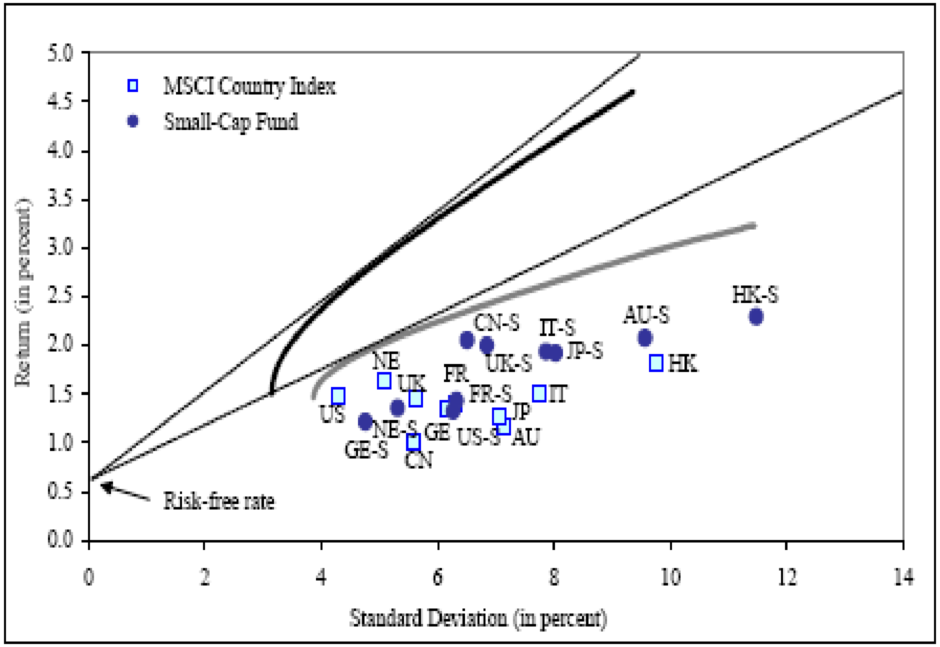
Even when investors move out, they do only slightly better

- International investors' bias for large stocks well documented (e.g. Eun et al, JFQA)





Extending out of sample – India Today

	Count	Average Assets	Average forex earnings	Average Net export	3-year Average CAGR Sales	3-year Average ROCE (%)
ADR/GDR	165	9953	668	-630	36.9%	19.05
FII Holding 5% +	624	5664	284	-258	43.6%	22.91
FII Holding	1334	3111	179	-146	37.4%	19.37
Foreign Promoter	685	774	101	-38	32.4%	15.17
Foreign VC	32	309	80	14	32.2%	36.42
Total sample	4963	1188	71	-52	34.2%	10.72

Figures in Rs. crores

153 out of 165 DR companies had FII holding
116 of those had FII holdings over 5%

Average FII ownership in DR firms: 15%

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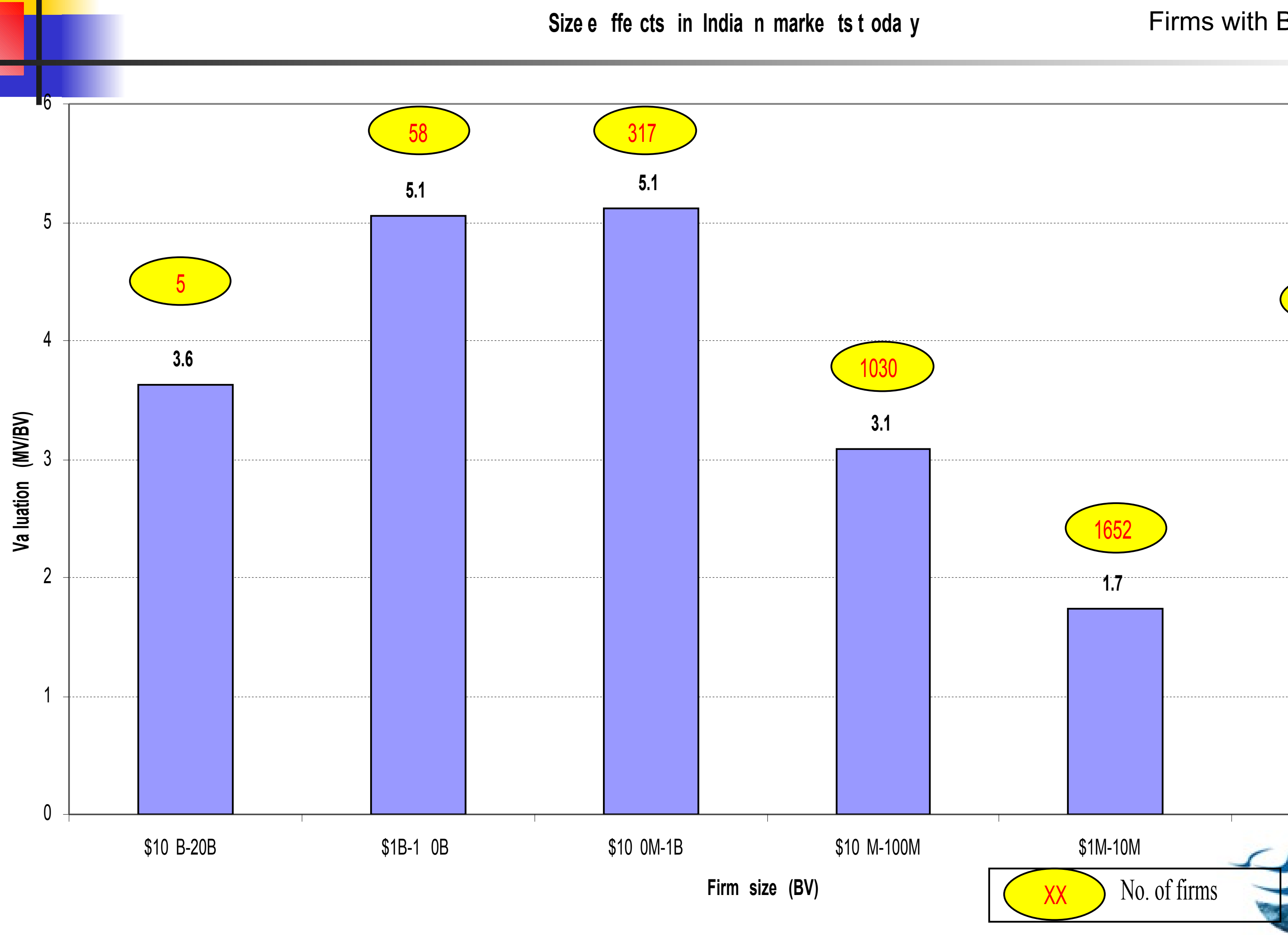
Extending out of sample – India Today

Firms with BV> 0 only



The “Take Away”

- The Financial World is far from “Flat”
- Countries have medium hedges around them that only bigger and fitter firms can jump over
- Some countries have lower hedges than others
- Investors have a horse’s eye-view, probably not a giraffe’s, definitely not a bird’s
- They see large objects across hedges but are reluctant jumpers

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Thank You