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

- **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?
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.”
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

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

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

Average FII ownership in DR firms: 15%

Figures in Rs. crores
Extending out of sample – India Today

Size effects in Indian markets today

Firms with BV> 0 only

<table>
<thead>
<tr>
<th>Firm size (BV)</th>
<th>No. of firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10 B-20B</td>
<td>5</td>
</tr>
<tr>
<td>$1B-10B</td>
<td>587</td>
</tr>
<tr>
<td>$10 M-1B</td>
<td>317</td>
</tr>
<tr>
<td>$10 M-100M</td>
<td>1030</td>
</tr>
<tr>
<td>$1M-10M</td>
<td>1652</td>
</tr>
<tr>
<td>Below $1M</td>
<td>3.7</td>
</tr>
</tbody>
</table>

Valuation (MV/BV)

- $10 B-20B: 3.6
- $1B-10B: 5.1
- $10 M-1B: 5.1
- $10 M-100M: 3.1
- $1M-10M: 1.7
- Below $1M: 3.7
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
Thank You