Multinationals and the effectiveness of capital controls : some observations

Sanjaya Panth and Poonam Gupta

September 16, 2009

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