Global Banks, Local Financial Development, and FDI (co-authored with Nicholas Rowe, the University of Essex)

Abstract:
This paper contributes to an emerging literature on the financing decisions of a firm engaging in international trade. We extend previous models of multinational subsidiaries’ financing to include external financial resources in the form of multinational banks. We find that the use of multinational banks drives increased export activity for multinational subsidiaries. Additionally, multinational banks are often better-suited than local banks, or the multinational parent, to monitor the exporting activities of the geographically distant subsidiaries. In contrast, we find that this multinational bank advantage does not extend to supporting the domestic activity of multinational affiliates. These findings are empirically tested using a firm-level panel of Central European exporters. Furthermore, there is a strong geographic bias to the choice of a multinational bank from the same country as a parent’s subsidiary due to better access to multinational bank subsidiary services.