COMMENT ON "THE ROLE OF FOREIGN BANKS IN TRADE" FROM A TRADE ECONOMIST'S POINT OF VIEW

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SUMMARY (1)

- **Investigate whether internationally active banks helps to enhance international trade**

- **Using a unique dataset for bilateral foreign bank presence and bilateral trade flow, this paper explores what kind of institutional factor promote exporting activity**

SUMMARY (2)

Major finding

- Sectors with a greater external financial dependency tend to export more when there is a larger foreign bank share or when bank from the importing country is present.

- The entry of a bank from an importing country increases bilateral exports more in external finance dependent sectors.

- Especially the impact of a bank entry from a country with a global banking system is significantly larger.

- Results are robust even when various institutional factors are controlled.

GENERAL COMMENTS

- This study uses a unique dataset of bilateral foreign banks and presents insightful implications.

- This paper contributes a lot to the literature.

- I really enjoyed reading this paper!!

- From Trade economist's point of view, with some more citations of trade paper and some additional control variables, this paper will attract more trade economists' attention.

COMMENT (1)

Interpretation of the estimation equation

- $lnE_{ij} = X\beta + Z\gamma + FX + FM + FS + \varepsilon_{ijs}$
  - lnE: bilateral trade value from i to j
  - X: financial factor
  - Z: other control variable, distance
  - FX, FM, FS: Exporter, Importer and Industry dummy variables

COMMENT (1), CONT

Interpretation of the estimation equation

- Traditional Gravity model
  - $Trade_{ij} = \alpha + \beta GDP_i + \gamma GDP_j + \delta distance_{ij} + \varepsilon_{ij}$

- Structural Gravity model
  - Many studies have developed the micro-foundation of "Gravity model" in this decade. (e.g. Anderson and van Wincoop, 2003; Head and Mayer, 2014)
  - Recent studies consider "Gravity model" as the import demand function derived from CES utility function.

COMMENT (1), CONT

Structural Gravity model

- Trade value, X from country i to country j

Export side cost factor

$$lnX_{ij} = ln\mu_j Y_j + lnv_i - (\sigma - 1)\ln\left(\frac{\tau_{ij}}{\alpha_{ij}}\right) - \sigma lnp_i + I_j$$

Size of Import market

Export side production capacity

Trade cost

Price index in import country

- $lnX_{ij} = \alpha + \beta TC + FX + FM + \varepsilon_{ij}$

  - Export and import country characteristics are controlled by exporter and importer fixed effect.
  - This equation is exactly same with the estimation equation in this paper!

COMMENT (1), CONT

Interpretation of the estimation equation

- An Empirical specification in Structual Gravity
  - $lnX_{ij} = \alpha + \beta \text{TC} + FX + FM + \varepsilon_{ij}$
- The equation estimated in this paper
  - $lnE_{ijs} = X\beta + \gamma distance + FX + FM + FS + \varepsilon_{ijs}$

- My suggestion
  - emphasize the link with previous empirical trade literature of "Gravity model" by referring to empirical trade papers. (e.g. Anderson and van Wincoop, 2003; Head and Mayer, 2014.)

COMMENT (2)

Trade Cost (TC) between two countries

- Impact of TC is one of the important focus in the literature of empirical international trade

- This study control…
  - *Distance*ij: proxy for transportation cost
  - *IFB*ij: Dummy for foreign bank from importing country

COMMENT (2), CONT.

- Other factors affecting TC.
  - Cultural similarity: common language, colonial history, common religion
  - Geographical condition: land boarder
  - Institutional factor: currency union, RTA
    - These data can be downloaded from Thierry Mayer's web site: http://econ.sciences-po.fr/thierry-mayer/data

- My comment
  - IBF may capture a cultural similarity or institutional factors.
  - If so, the coefficient of IBF may have upper bias.

COMMENT (3)

Dealing with "Zero trade"

- As heterogeneous firms have been taken into consideration in the literature of empirical international trade (e.g. Melitz, 2003), dealing with "zero trade" become one of the important issue in recent trade literature.

- It become common to present the results for the intensive margin (OLS), extensive margin (probit) and the both decision jointly.

COMMENT (3), CONT.

- In this paper
  - This study keep the zeros and estimate the extensive and intensive margin jointly by Poisson model in column (9) in Table 3.
  - Although results for FB and FD do not change, IFB become insignificant.
- My suggestion:
  - Did you check and try Poisson Peusde ML (PPML) rather than Poisson? Trade economists prefer to use PPML.("ppml" command written by Santos Silva and Tenreyro is available in Stata)
  - Why not try Heckman two stage estimation as a robustness checks, which is proposed in Helpman, Melizt and Rubenstein (2008)?

	Base	Extensive margin	Intensive and extensive margin
	[1]	[8]	[9]
FB * extfin	0.724***	0.216***	1.079***
	(0.063)	(0.0263)	(0.289)
IFB * extfin	1.298***	1.962***	1.813
	(0.392)	(0.669)	(1.230)
IFB	2.859***	2.823***	0.818
	(0.544)	(0.383)	(0.510)
FD * extfin	1.678***	0.753***	0.854***
	(0.035)	(0.0228)	(0.151)
Distance	-1.817***	-0.962***	-0.954***
	(0.026)	(0.0169)	(0.0322)
Corruption * extfin			

MINOR COMMENTS

- Are coefficients for probit marginal effects?

- Why # of obs for poisson (extensive and intensive margin, tab3 col9) is greater than that for probit (extensive margin, tab3 col 8)?

REFERENCE

- Anderson, J., and van Wincoop, 2003, Gravity with Gravitas, *American Economic Review*, 69(1), 106-116.

- Head, K., and Mayer, T., 2014, Gravity Equations: Workhorse, Toolkit, and Cookbook, *Handbook of International Economics*, 4, 131-195.

- Helpman, E., Melitz, M., Rubenstein, Y., 2008, Estimating Trade Flows: Trading partners and Trading Volumes, *Quarterly Journal of Economics*, 123(2), 441-487.

- Santos Silva, and Tenreyro, 2006, The log of Gravity, *Review of Economics and Statistics*, 88(4), 641-658.