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Do global banks facilitate foreign direct investment?

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Abstract

The wave of globalization in finance during the last decades led to the rise of global banks. Are these merely costly liabilities to the countries that supervise them, or is their global reach also beneficial for the real economy and for FDI in particular? Recent literature has focused on the risks, emphasizing transmission of shocks from one country to many countries. On the positive side, this paper hypothesizes that global banks have made investing abroad easier and more successful for their home-market customers. Using a new detailed data set of outward FDI, this paper finds that banks' direct investment abroad is positively associated with the volume of non-financial FDI from the same home market. The result is robust to various robustness exercises which show that the main results are not likely to be driven by reverse causality. The effect is stronger in countries where investing is more hazardous, those with worse corruption and weaker rule of law. Conversely, this paper does not find evidence that host-market domestic or third-country foreign banks facilitate FDI.

JEL Codes: F21, G21, O16, C33
Keywords: outward FDI, banks, asymmetric information, panel non-stationarity

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