Discussion of "Who Owns Europe's Firms? Globalization and Foreign Investment in Europe"

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The paper studies Foreign Investment in Europe

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- Foreign investment potentially bigger (FDI: 10%+ acquisition of company shares).
- Paper covers 1998-2008, striking period for EU's FDI:

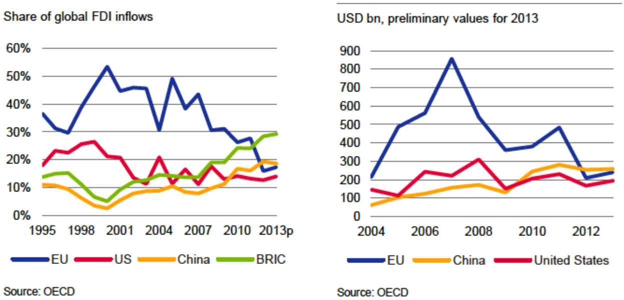

Figure : FDI (Source: Deutsche Bank Report)

Paper and Discussion Overview

- This paper:
    1. Compiles a rich new **firm-level dataset**, which uncovers new stylized facts on ultimate ownership, covers more than FDI, allows to control for unobservables.
    2. Explores determinants in the forefront of the European policy debate: **structural** policies.

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  2. Explores determinants in the forefront of the European policy debate: **structural** policies.
- This discussion:
  1. Points out facts that the data uncovers not analyzed in paper so far.
  2. Describes structural policies analysis and gives suggestions.

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2. There are two types of investors: ones through financial intermediaries, others directly.
   - More or less "cherry-picking" among owners through intermediaries?
   - Is ownership more or less tilted to small participations (FDI vs. portfolio investment)?

Determinants of Foreign Investment Studied: Analysis

- Objective: study the effect of bilateral policies on FI. Regression equation (FI on policy variables):

$$log(FI_{i,o,d,t}) = \sum_{k=1}^{K} \beta_k X_{k,d,t} + \gamma_1 Size_{i,d,t} + \gamma_2 P_{i,d,t} + \delta_i + \delta_{o,d} + \delta_t + u_{i,o,d,t}$$

- Treatment at the country pair level ($X_{k,o,d,t}$). Product regulation and financial similarity.
- Fixed effects control for: δ_i time-invariant unobservables (eg. general creditworthiness associated with country o), $\delta_{o,d}$ time-invariant country-pair specifics (eg. common language, distance), δ_t common shocks to all country pairs.

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  - Exploit regulation types: stronger effect when restricting attention easing of barriers to entrepeneurship, less so easing of barriers to trade and investment (eases FI).

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- Can the authors explore whether there are differential effects?
  - *Across sectors*: use Rajan and Zingales (1998) external finance classification to explore whether effects of financial harmonization are bigger for firms in more financially dependant sectors.
  - *Across types of firms*: eg. test whether younger/older firms benefit more from financial harmonization.

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- Equally flexible labor markets would encourage foreign flows? Or...
- Effect as in product regulation is present and more disimilar countries prefer setting-up firm in target country?

Wrapping-up

- Very interesting paper on a relevant topic.
- Concentrates on an important player in world markets of FI.
- Promising avenue of research and many questions to answer with data.
- Structural policies seem a natural candidate to start off when thinking about European Union.
- Would like to see more on testing the product regulation channel, differential effects for financial harmonization, and labor market flexibillity.