Discussion of “Who Owns Europe’s Firms? Globalization and Foreign Investment in Europe”

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January 2015
The paper studies Foreign Investment in Europe

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- Paper covers 1998-2008, striking period for EU’s FDI:

Figure: FDI (Source: Deutsche Bank Report)
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.
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.

- This discussion:
  1. Points out facts that the data uncovers not analyzed in paper so far.
  2. Describes structural policies analysis and gives suggestions.
Can the firm-level data shed light on relevant stylized facts?

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- Where is the drop in Foreign Investment concentrated? Smaller firms? Which sector(s)?
- Are European owners retrenching? Or is it ultimate owners in US and Asia?

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)?

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Determinants of Foreign Investment Studied: Analysis

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

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

- Treatment at the country pair level \((X_{k,o,d,t})\). Product regulation and financial similarity.

- Fixed effects control for: \(\delta_i\) time-invariant unobservables (eg. general creditworthiness associated with country \(o\)), \(\delta_{o,d}\) time-invariant country-pair specifics (eg. common language, distance), \(\delta_t\) common shocks to all country pairs.
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  - Exploit regulation types: stronger effect when restricting attention easing of barriers to entrepreneurship, less so easing of barriers to trade and investment (eases FI).
Financial Harmonization: more integration leads to higher foreign flows.

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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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  - minimum wage, hiring and firing regulation, centralized collective wage bargaining, mandated cost of hiring, mandated cost of work dismissal; and conscription.
- Data has a score between 0-10 for 97 countries between 1985-2008. IMF working paper Bernal-Verdugo, Furceri and Guillaume (2012) has merged dataset with other variables.
- Could match indices to get similarity index for \((o,d)\).
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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.