Viewing Submission

Title: F30-1 3793 International Finance and Firm Performance
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Chair

Robert L. Wood, Independent — USA

Papers

Simona Rasciute, Loughborough University — England, **Eric J. Pentecost**, Loughborough University — England and **Ben Ferrett**, Loughborough University — England, *A discrete choice approach to modelling foreign direct investment location decisions*

This paper investigates the effect of investing-firm heterogeneity on the investment location decisions of multinational enterprises, using a discrete choice model and a novel three-level dataset, which includes over 1100 foreign direct investment (FDI) location decisions into 13 alternative Central and Eastern European countries (CEECs) over an eleven-year period. The estimated eclectic theoretical model generates empirical results that show that the responsiveness of the probabilities of the choice to invest in a particular CEEC to country-level variables, differs both across sectors and across firms of different sizes and profitability.

Francisco Serranito, CEPN - UMR 7115 CNRS, University of Paris XIII — France and **jean Baptiste Gossé**, CEPN - UMR 7115 CNRS, University of Paris XIII — France, *Global patterns of current accounts imbalances: panel cointegration assessment*

What explains global imbalances? Dooley, Folkerts-Landau and Garber (2003) consider that the global imbalances of the 2000s result from an export-led growth strategy of Asian countries that is similar to the one adopted by Europe and Japan after the Second World War. In both cases, the surplus countries accumulate reserves so that their exchange rate remains undervalued relative to the dollar. They can maintain their competitiveness and benefit from growth by exports.

Bernanke (2005) builds on this previous work and he assumes that the US current account deficit is explained by a global saving glut mainly in emerging countries. The current account surpluses of emerging countries have two origins. Firstly, in the aftermath of the 1997 financial crisis, Asian emerging countries have accumulated reserves to cover against a possible sudden flight of foreign capital. At the same time, they maintain their exchange rates undervaluated which has boosted their exports and their growth rate. Secondly, because of oil prices soaring OPEC countries also emit a surplus of savings that they want to invest abroad, since their absorption capacity is limited due to their small population. The saving surplus of the emerging countries flows to the United States, the economy that presents the best features (Bernanke, 2005). These inflows of investments lead an appreciation of the dollar, an increase in asset prices and, after 2000, lower interest rates and an increase in household wealth. The combination of these factors motivates households to reduce their savings and increase consumption.

Since Chinn & Prasad (2003)'s seminal paper, empirical literature estimates current account determinants by running panel estimation on the current account balance (as a share of GDP) on several macroeconomic variables (fiscal policy, relative prices, demographic factors, financial series…). As demonstrated by Kao (1999), if the data include stochastic trends then OLS panel estimation could suffer from the spurious regression issue. This paper aims at testing the long-run determinants of the current account in 21 OECD countries with panel cointegration techniques. Fiscal policy, the real effective exchange rates, productivity and to a lesser extend real interest rates differentials are the main determinants of current account in the long run. Mean group panel DOLS estimation provides a robust framework to calculate equilibrium current account balance for each country. We then compute a measure of imbalance by subtracting this equilibrium value of the current account to the original series. A striking feature of this new measure of imbalance is that the observed current account does not fluctuate around its equilibrium value. There is significant imbalance in the current account,

which can last for more than a decade. Countries in deficit (namely the United States and South European countries) as well as countries in surplus (e.g. Germany and Japan) have imbalances of their current account in surplus relative to this standard. Therefore the rebalancing of current account imbalances among OECD countries requires economic policy changes in both deficit and surplus countries.

Yaroslava Babych, International School of Economics - TSU — Georgia, *Financial crises and economic growth: a long-run perspective*

In the economic literature the costs of financial crises are typically defined as cumulative output losses until the resolution of the crisis. Given this definition, majority of the empirical studies have documented significant economic costs associated with currency, banking and the twin crises. Few studies, however, looked at the long-term effects of various types of crises. In this paper I estimate the effect of currency, banking and twin crises episodes on the probability of initiating the periods of prolonged and significant growth spurs and downturns – the growth take-offs, and the growth collapses.

I identify growth takeoffs using the structural break method detailed in Hausmann, Pritchett and Rodrik (2005)[1]. This method has the advantage over the more commonly used Bai-Perron test in that is helps identify the episodes of prolonged and accelerating growth, ruling out the instances of recoveries from bad shocks. I modify the Hausmann, Pritchett and Rodrik methodology to make it applicable to historical growth data. I use similar technique to identify the episodes of growth collapses.

I find that currency crises are significant positive predictors of growth take-offs, especially in the post World War II period. The currency crises episodes, however, were reducing the probability of growth take-offs during the Gold Standard era. I also find that the average export growth in the five years following a currency crisis was 5.6% above the historical mean in post-World War II years, whereas during the Gold Standard era, the corresponding deviation of export growth from the mean was not statistically different from zero. This may be interpreted as the evidence in favor of the hypothesis that the "resumption rule" of the Gold Standard era – the implicit rule prescribing a prompt return to of the original parity with gold following a currency crisis- may have contributed to the overvaluation of the real exchange rate and dampening of the economic activity in the long run.

The results of the paper confirm the intuition that twin crises are likely to significantly dampen economic activity even in the long run. Twin crises are found to be positive predictors of growth collapses during 1980-2003, and negatively influencing the probability of growth take-offs during the Gold Standard years.

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[1] Hausmann, Ricardo, Lant Pritchett and Dani Rodrik (2005) "Growth Accelerations" Journal of Economic Growth, Volume 10, Number 4, 303-329

John Philipp Weche Geluebcke, Institute of Economics, Leuphana University Lueneburg — Germany, *Foreign ownership and firm performance in the German services sector*

Do foreign owned firms savor a superior or suffer an inferior relative performance compared to their German counterparts? The importance of robust empirical evidence to give a detailed answer seems out of question but cannot be met by existing research to date: International studies

produce rather ambiguous results, and, for Germany, evidence is not sufficient for assuming stylized facts. Furthermore, evidence for the services sector is scarce, in general. This study contributes to the literature by providing first evidence for foreign controlled enterprises in the German services sector, based on micro data of official statistics with newly available information from the EU-wide Foreign Affiliates Statistics (FATS). Export behavior and profitability, which are neglected in this context to date, apart from labor productivity, wages and size, are examined by comparing unconditional and conditional means as well as distributions along quantiles to allow for heterogeneity. A breakdown by country of origin and several domestic reference groups is performed. Results reveal persistent superior measures for foreign controlled affiliates; only labor productivity turns insignificant when German affiliates with a high degree of internationalization serve as reference. In contrast, return on sales offer an inverse average relation, and European affiliates are characterized by significantly lower wage payments and export activity compared to other foreign affiliates.

Discussant

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