

Comments on
Location Decisions of Foreign Banks
and Competitive Advantage



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Purpose of Paper

- Advance knowledge of why banks have operations in some countries rather than others
 - Does that nicely
 - A clean paper

Location Decisions

- Banks locate in foreign countries in which they are familiar with the institutional arrangements
- Banks locate in foreign countries in which they have a comparative advantage compared to other banks in the institutional arrangements

Actual Issue Examined

- Paper examines where banks locate and are relatively successful
 - Dependent variable is assets of all banks in country i owned by banks from country j relative to all banks' assets
 - Measures entry and penetration, not just entry

Does This Matter?

- Does not matter to extent location decisions is interpreted as relatively successful location decisions
- Matters to extent desire to expand and success depend on comparative advantage given institutions

Entry

- I would be interested to see how entry choices line up, if that's feasible
 - Bank-specific, not country-specific
 - Country-specific would be interesting if that's all that can be done
 - Separate out successful entry from an initial presence
 - Even if not enough observations to be convincing statistical evidence to a skeptic one way or the other
 - Are they consistent with the analysis in this paper?
 - If they're inconsistent, then I might give more weight to successful aspect of dependent variable

Minor Technical Issue

- Institutions are simple aggregates
- Can do an F-test to see whether these simple aggregates are consistent with the data
 - Equation with institutional differences separately
 - Simple to do and standard errors on individual coefficients are irrelevant

To-do List at End of Paper

- How do we interpret the results?
 - Banks tend to do well in countries with qualities of “governance” more similar to their own country than to their competitors’ countries
 - Easy to interpret as practices similar to own country are not likely to get a bank in trouble
 - Bribery
 - Respect for civil liberties
 - Claessens and Van Horen mention this possibility

Policy Implications

- Natural to try to draw some policy implications
- Claessens and Van Horen do not make policy claims

Institutions

- What about whole strand of literature on institutions?
 - “Governance” describes measurable aspects of a Western European legal system and government more than anything else
 - I am not sure what to make of governance
 - If you are born in Italy, you are better off than if you are born in Haiti
 - Part – I doubt whether all – of that is due to the government
 - Government and institutions are not really exogenous
 - Recent research on origins of institutional differences between Caribbean countries by Engerman and Sokoloff