



**SVERIGES
RIKSBANK**

Discussion of
Luis San Vicente Portes:

“Financial Frictions, Foreign
Direct Investment and
Growth”

Kasper Roszbach
ASSA/IBEF, 3 January 2009

■ Summary of paper

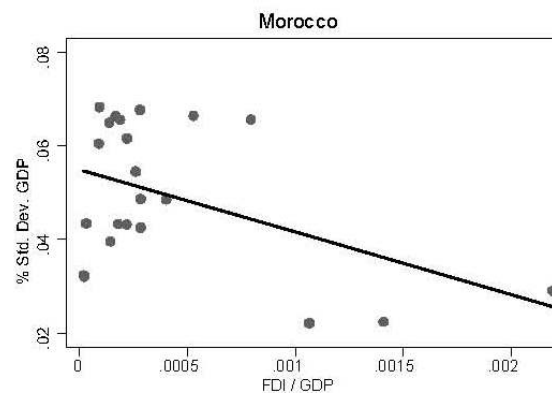
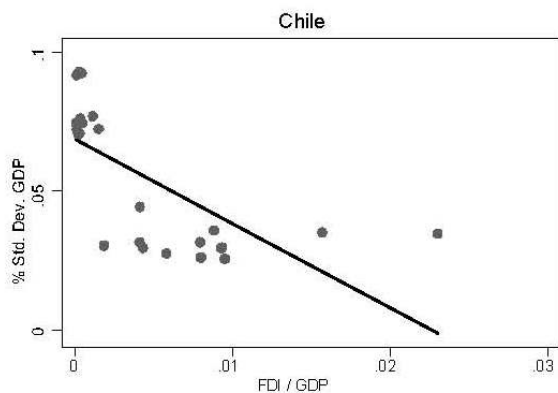
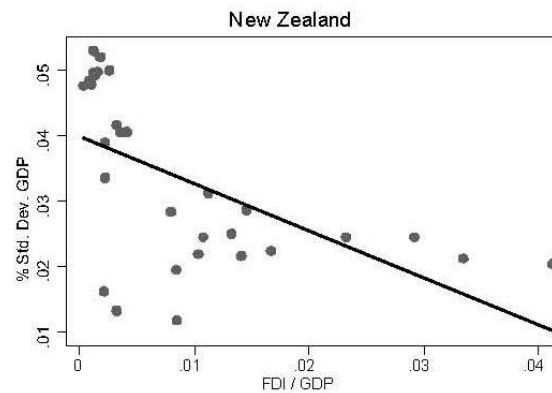
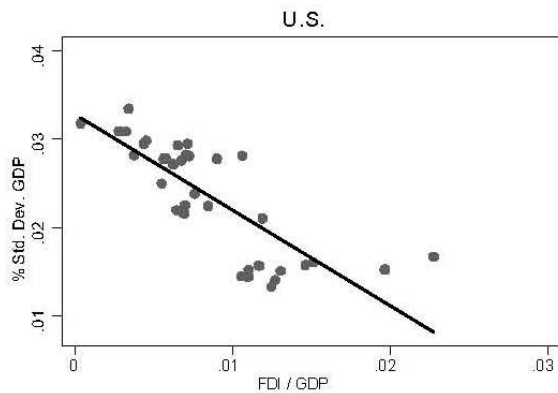
- With financial frictions, international diversification leads to *relatively* faster growth, less leverage
- Channel = financial accelerator: FDI leads to smoother path for net wealth, and thus less volatile terms of credit, investment and output
- Because financial accelerator “channel” is dampened by int’l diversification, there is an opposite, negative (positive), effect on ext. fin. premium in upturns (downturns) as int. funds are replaced by borrowing

■ Assumptions

- B-G-C financial accelerator model with FDI
 - Domestic shocks affect foreign subsidiaries through parent investments, but no transmission of foreign shocks from subsidiary to parent
 - Foreign and home return processes equal
 - No cost or risk of foreign investment, no exch. rates
 - Borrow at home only
 - Firms diversify identically
 - No knowledge or technology transfer involved
-

- Comments
 - Nice idea
 - Well executed

 - Stylized facts robust?
-



■ More comments

- What happens in this model if the whole world (perfectly) diversifies internationally?
 - How think of foreign shocks not affecting parent?
 - What is driving force behind and essence of FDI?
 - Model: FDI share, shock correlation single driver of results
 - Why don't firms diversify more through FDI than 5% if “costless”?
 - Need to include factors that affect FDI decision (costs and risks of FDI)
-

■ Conclusions

- Relevant idea!
- Technically well done
- Think more about the economics!
 - FDI decision should be endogenous