Abstract

We analyze empirically the effect of bank linkages on international trade. We construct the global banking network (GBN) at the bank level, using individual syndicated loan data from Loan Analytics for 1990-2007. We compute network distance between bank pairs and aggregate it to country pairs as a measure of bank linkages between countries. We use data on bilateral trade from IMF DOTS as the subject of our analysis and data on bilateral bank lending from BIS locational data to control for financial integration and financial flows. Using gravity approach to modeling trade with country-pair and year fixed effects, we find that new connections between banks in a given country-pair lead to an increase in trade flow in the following year, even after controlling for the stock and flow of bank lending between the two countries. We conjecture that the mechanism for this effect is that bank linkages reduce the risk exporters face and present evidence that is consistent with this conjecture.

JEL classification: F10, F15, F34, F36

Keywords: international trade, banking networks, bank, gravity

*galina.b.hale@sf.frb.org, corresponding author. We thank Joshua Aizenman for conversations leading to this research project and for useful comments. We benefitted tremendously from comments by George Akerlof, Matthieu Bussiere, Yiwei Fang, Reuven Glick, Kathleen Hanley, Oscar Jordá, Gian-Maria Milesi-Feretti, Maury Obstfeld, Jennifer Poole, Matt Pritzker, Shang-Jin Wei, Thomas Wu, seminar participants at the Banque de France, the International Monetary Fund, the Board of Governors of the Federal Reserve, UC Santa Cruz, as well as conference participants at CEPR-BOF meeting in Helsinki and Santa Cruz Institute for International Economics. We are grateful to Akshay Rao and JULIAN’S RA for excellent research assistance. Hale is grateful to Stanford Center for International Development for financial support and hospitality during work at early stages of this project. All errors are others. The views are those of the authors only and do not necessarily represent the views of the Federal Reserve System or YP Holdings, LLC.