Bank Financing of Global Supply Chains

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International trade and banks

- In a world with many frictions, banks have a special role
  → Banks interact with borrowers, produce information&liquidity, and reduce frictions
- International trade is especially prone to frictions
  → Search costs, information asymmetries, financial constraints, etc.

This paper

- **Q**: Do banks play a role after a policy-induced international trade shock?
- **Trump administration** introduced higher tariffs on Chinese goods, starting a trade war
  → More than half of the bilateral trade
  → Average US tariff increased to 19% from 3%
- Combines firm-to-firm import-export data at the product level and firm-bank lending data at the loan level

Richness of the shock

- The shock is more than just a higher tariff on intermediary goods
  → Higher tariffs also cover final goods & China retaliates with higher tariffs on US exports
  → **Why don't you exploit this richness?**
- Tariffs on **final goods** create an advantage for US firms in the US market. Thus, these firms may expand their production, increasing their loan demand.
  → The higher the loan supply, the larger the capture by the US firms (liquidity effect)
- **Retaliation by China** may incentivize US firms to search for new markets.
  → "Realignment" may not be only for suppliers. US firms may act strategically: they prefer markets that could be both suppliers and consumers
- It is highly likely that **these two features of the shock are highly correlated with tariffs on intermediary goods.**
- Is this a challenge for identification? Probably, yes...
  → But it is a good challenge: fixable and makes the story more detailed

Role of banks

- What are the main options for the firms to deal with the higher tariffs on intermediary goods?
  1. Change the production process (e.g., less dependence on a particular input from China)
     → This is related to **liquidity**
  2. Find another supplier that is not affected by this trade war
     → This is related to **information frictions**
- What can a bank do for these two options?
  → Banks can be helpful for both!
  → **Which one is more important?**
- Current bank specialization variable measures banks' exposure to the shock
  → Banks with higher exposure have incentives to help their borrowers reduce the possible adverse effects on their balance sheets
  → This is related to the two options above but also different
- Using different bank measures to capture different aspects could be useful

Role of banks

Two possible bank-level measures

1. **Bank lending capacity**: Use a standard bank lending capacity measure(s). Focus only on the higher-loan-demand nature of the shock. You can use the entire large US bank population.
2. **Banks as international trade facilitators**: Can banks help reduce information asymmetries in international trade?
   → Considering their services, they can!
   → Find whether there are other suppliers of the same product in other countries
   → Does the bank have a subsidiary in those countries or a borrower (via Dealscan data)? Does the bank have a US borrower who imports that product from the alternative country?

I think looking at the **extensive margin** is important
→ Firms may want to establish a lending relationship with a bank who can reduce the information frictions and/or has a better lending capacity

Other comments

- Exploit firm-level treatment intensity
  $\rightarrow$ Some firms rely on Chinese input more
  $\rightarrow$ Some firms do not have an alternative supplier in other countries!
  $\rightarrow$ The effect of the shock could be different for these types of firms drastically
- Do these more exposed banks channel their domestic loan supply to the affected firms?
  $\rightarrow$ Depending on the banks' lending capacity, this implies a negative spillover effect on domestic firms
- You may want to relax some of the fixed effects to enable firms to adjust their production processes.
  $\rightarrow$ Firms may switch to other inputs and product$\times$firm FE may absorb this nice variation.

Other comments

- Why is the high-yield dummy so important?
- Can you exploit within-US supplier information?
- In specialized lenders tables, there are two types of bank dummies. What is the third bank type?
- Keeping the fixed-effects structure constant across models in the same table could be useful for the reader.
  → Otherwise, the reader may not understand where the effect is coming from.