# 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

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- **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**
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     → This is related to **information frictions**

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- 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

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   → Considering their services, they can!
   → Find whether there are other suppliers of the same product in other countries
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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
  → Some firms rely on Chinese input more
  → Some firms do not have an alternative supplier in other countries!
  → 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?
  → 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.
  → Firms may switch to other inputs and product×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.
  $\rightarrow$ Otherwise, the reader may not understand where the effect is coming from.