MACROECON & INT'L FINANCE WORKSHOP
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Bank Linkages and International Trade

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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

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