Migration and cross-border banking: The missing link?

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Abstract

What explains global patterns of cross-border banking? Banking integration is a key part of global financial integration, facilitating international economic exchange and making capital available for investment. Existing research on causes of cross-border banking gives pride of place to the importance of banks in trade financing. This work, however, relies almost exclusively on OECD-based data—using BIS data to examine the exposure of OECD-based banks to countries in the global south. Using a novel set of bank-level data, we investigate a more complete set of banking connections, including South-South links among emerging economies and those of emerging economy-based banks operating in advanced economies (South-North links).

We argue that cross border banking connections—especially those connecting emerging markets to advanced economies—can be understood through the lens of migrant networks. Migrant networks incentivize banks to move across borders, both from home countries into countries where migrants settle and vice versa. First, migrants provide a client base that is underserved by existing banks in destination countries. Second, migrants provide information that may make cross-border operations less risky. Third, migrants engage in business between their origin and destination countries that benefits from banking services across borders. Finally, banks can facilitate remittance flows.

By using bank-level data, we reveal the role of migration in fostering these links. We not only show that migrants are an important driver of banking integration, but also that they act as a bulwark against disintegration: in dyads with more migration, cross-border banking is less likely to recede in response to crisis.

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