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# International Financial Integration and Entrepreneurial Firm Activity

by [Laura Alfaro](#) and Andrew Charlton

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## Abstract

We explore the relation between international financial integration and the level of entrepreneurial activity in a country. We use a unique firm-level data set in a broad sample of developed and developing countries, which enables us to present both cross-country and industry-level evidence. We find a positive robust correlation between de jure and de facto measures of international financial integration and proxies for entrepreneurial activity such as entry, size, and skewness of the firm-size distribution. We then explore potential channels through which foreign capital may encourage entrepreneurship. We find that entrepreneurial activity is higher in industries which have a large share of foreign firms in vertically linked industries. Second, we find that entrepreneurial activity in industries which are more reliant on external finance is disproportionately affected by international financial integration.

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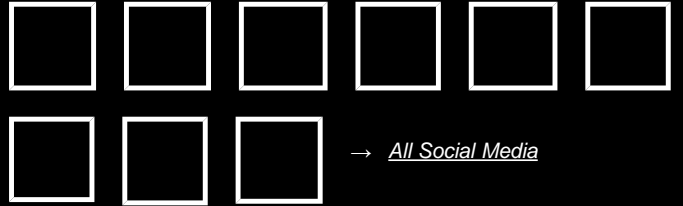
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