We then extend our analysis by exploring the extent to which specific country characteristics influence our results. In other words, we are interested in exploring whether country heterogeneity may explain cross border flows. We split the countries between the upper (High) and lower (Low) tercile distribution of the size of cross-border flows (BIS Table 7A-7B, Panel B), country openness (Chinn-Ito Index, Panel C), developed versus developing countries (Panel D) and legal enforcement (Law and Order, Panel E).

Panels B and C show that global factors have a significantly larger impact than local factors in countries more financially open and where banking flows are bigger. For instance, for countries subject to a large size of bank inflows (Panel B, High), model 3 gives $R^2 = 0.214$, which is 3.6 times higher than model 2's $R^2 = 0.059$, meaning that our global variables explain significantly more of the variation in banking flows than local characteristics. The greater importance of global characteristics is most obvious when we use time dummy variables $(0.368/0.059 = 6.3$ times larger). In countries with lower banking inflows (Panel B, Low) global factors still explain more than local factors but with a difference that is lower in magnitude.

Panel D shows results for the sample of developed and developing countries. Global factors remain more important than local factors (model 4 versus model 2) in explaining the banking flows in both developed and developing countries. A similar picture emerge from Panel E where global factors seem to explain more of the variation in banking flows in countries with strong legal foundations.

Taken together, this analysis confirms that global factors explain much more of the variation in cross-border flows. At the same time, the findings point out the heterogenous effects of global factors depending on the magnitude of the inflows, level of financial openness and legal development.