The Red Hat: the Shield Against Crisis?
– Finance and Export in China

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Abstract

Firms need finance to access to export market (Chaney, 2005; Manova, 2010), and this is particularly the case for underdeveloped regions than those in the developed regions (Berman and Héricourt, 2010), and probably more so during a financially stressed period when the cash flows may not be as smooth as in a boom. In China, the government has launched a large scale of financial support, as much as nearly 700 billion USD, with the main purpose of stimulating the economy and helping firms in distress overcome the crisis. Many of the financial assistance recipients are exporting firms. Although it is still too early to assess the result of the government support, as complete data are not available yet, it is nevertheless highly interesting and certainly important to know if the governmental support in as early as 2008 has helped firms to export, exporters to continue exporting, and spurred the growth in general. Further, in the course of government "saving the market", most of the Chinese government capital in the manufacturing has been allocated to state-owned enterprises (SOEs), and in particularly central government controlled SOEs (CSOEs). Pure domestic private enterprises (Privates) are largely on their own. In this paper, we investigate the implications of such a government financial intervention on the export behavior of CSOEs, Privates, and foreign invested firms in China. More specifically, we are interested in collecting evidence on how government support mediates the constraining effect of capital market imperfections on the access to export market during an emerging market financial crisis. Domestic private firms and foreign-owned firms, which do not have special treatment from the State otherwise face the same investment prospects, provide an ideal control group for determining the effect of liquidity constraints.

We employ the most comprehensive firm level data available for China, maintained by the National Statistical Bureau, over the period of 1998-2008. Our analysis focuses on three groups of exporters, CSOE exporters (*Yiang Qi, 央企*) or the red hats, Private exporters (*Min Ying, 民营*), and majority ownership foreign invested exporters (*Wai Zi, 外资*), by attempting to answer the following three questions. (1) How are the average financing situation of these three types of firms, and have they shown changes during the examined period, particularly during 2007-2008 in comparison to prior to 2007? For example, is there any evidence that Privates face more stringent financing condition? (2) What is the impact of financial factors on firms' access to international market and if the impact has changed over the surging crisis period? (3) Have the changes in financing condition had similar implications on the access to

international market of firms under different ownerships? For example, have firms' liquidity constraints retard export more for Private exporters, than foreign invested firms and CSOE exporters?

To answer these questions, we first draw a complete picture of the financing situation and potential financial constraints statistically based on our data. We approximate credit constraints by several financial variables such as a firm's debt ratio and the liquid-to-total-capital ratio. We find consistent evidence that Privates are most financially constrained, compared other CSOEs and foreign invested firms. The situation has become slighted worse in the rise of financial crisis, although the changes are not statistically significant. Our results contribute to the literature documenting the role of financial constraints and financial health, and government supports, in firm export decision and extensive margin of trade in total trade adjustment, by provide new and robust micro-level evidence from China of how these adjustments are made and alter during an emerging global crisis.