Political affiliation, external finance, and trade credit extension: evidence from a panel of Chinese firms

Alessandra Guariglia
S. Mateut

Durham University

ABSTRACT
This paper makes use of a dataset made up of 65,706 firms over the period 2000-2007 to investigate the extent to which political affiliation has an impact on trade credit extension by Chinese firms. Our initial descriptive statistics indicate that politically affiliated firms benefit from easier access to short-term external funding and can therefore extend more trade credit to their business partners. In other words, we show that political affiliation facilitates trade credit extension.

We next link trade credit extension with access to external funding, allowing the relationship to depend not only on firm ownership and the characteristics of the goods produced, but also on firms' political affiliation. We find that the sensitivity of trade credit extension to the availability of short-term liabilities, which can be seen as an indicator of the degree of financing constraints faced by firms, is positive and significant for all firms. It is higher for firms operating in differentiated sectors than for their counterparts who sell standardized goods. It is also higher for private and collective firms than for state-owened and foreign companies, and it decreases with the degree of political affiliation characterizing frms. The sensitivity is highest for non-affiliated private firms, who operate in differentiated industries and are most likely to face financing constraints.

In conclusion, our findings suggest that by enabling firms to obtain more external funds, political affiliation facilitates trade credit extension. Gaining affiliation with higher levels of government may therefore be a strategy that Chinese firms could adopt not only to bypass the individual financing constraints they face, but also to reduce the overall level of financing constraints in the economy through the additional trade credit being made available.