Trade Credit in China:
Panel Evidence-based on the Survey of Industrial Enterprises

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Abstract

Firms may use trade credit financing ways frequently from their partners who with in a daily deal than financial institutions[1]. In China, we have three main modes for corporate finance. One is bank loan, another is security issuance, and the last one is trade credit. Compare with bank loan and security issuance, trade credit between business partners is also an important method for corporates, especially for SMEs. Using a large panel dataset of Chinese industrial firms, we found that SMEs especially the small firms are more likely to use trade credit than financial institutions. We also give a clear group divide with trade credit by supplier and demander. On this basis, we check the relationship of using trade credit and using financial institutions. If the coefficient on variables is negative and significant, it will suggest that trade credit is a substitute relationship with using financial institutions. And if the coefficient is positive and significant, it suggesting that trade credit is a complement relationship with using financial institutions. Our evidence implies that small firms use more trade credit, and have stronger substitute relationship with using financial institutions. We also found ownership may not effect the use of trade credit expend.

[1] Theories based on Petersen and Rajan (1997).