

What Develop Trade Credit? Case of Provinces in China

Go YANO*

Graduate School of Economics, Kyoto University, Kyoto, Japan
rswtj922@yahoo.co.jp

Maho SHIRAISHI

Faculty of Foreign Studies, The University of Kitakyushu, Kitakyushu,
Japan mshira@kitakyu-u.ac.jp

Using Chinese province-level panel data for 2001–2009, we investigate significant factors for the development of financial intermediation via trade credit in developing economies. First, we confirm that a competitive market environment, a well-functioning legal system and greater bank loans for non-state-sector firms promote the development of trade credit in China. Conversely, corruption hinders its development. Second, proper functioning of the legal system and bank lending to non-state-sector firms are highly likely to be the cause of the complex relationships between these determinants. Finally, an increase in the number of lawyers effectively improves the quality and function of the legal system, which in turn alleviates the harmful influence of corruption on trade credit development.

Keywords: trade credit development in China; competitive market; well-functioning legal system; corruption; bank loans for non-state-sector firms.