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Exporters and credit constraints. A firm-level approach

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Seeking to understand the process of globalisation, recent research on international trade has explored trade data at the level of the individual firm. Since the mid-1990s, empirical evidence has shown that companies which are involved in an international activity are quite different from purely domestic firms. They are larger, more productive, more skill- and capital-intensive, and pay higher wages. Also, they are a minority: among the 100,000-plus Belgian firms with more than one employee in 2004, only 15 percent exported. It also appears that exporters have a productivity advantage even before they start exporting, suggesting that the high cost of entering new markets can only be afforded by the most productive firms. Theoretical models have been developed in order to explain such facts by introducing heterogeneity among firms in a given industry rather than using a representative firm. This approach identifies gains from freer trade through a reallocation of resources from the less productive purely domestic firms, which are more likely to close down, to the more productive surviving international firms.

The literature on firm-level trade has thus, so far, mostly concentrated on the interactions between trade and productivity. This paper considers another critical issue in understanding firms' exporting decisions, namely the financial situation of the firm, and in particular the credit constraints it faces. Behind the export promotion policies used by governments lies the belief that it would be profitable for firms to export, but that they often lack the information and funds to go ahead, which is where their national authorities can help them. Despite the widespread use of these interventions, there is little empirical evidence on how important financial considerations are for the international expansion of firms.

Building a theoretical model and taking it to the data with two novel datasets for Belgium, this paper considers the determinants of firms' exporting behaviour. More specifically, it seeks to analyse whether there is any interaction between financial and credit constraints, on the one hand, and exports, on the other. One of the datasets used covers a subset of Belgian manufacturing firms from 1999 to 2005 and provides information on the exporting activities of firms in terms of destination, product and value of exports. The Coface International credit-rating score was also made available to measure the credit constraints faced by a firm at a given point in time.

The main result of this paper is to show that firms are more likely to be exporters if they are more productive and less credit-constrained. Regarding the patterns of trade, firms are more likely to start exporting to a new destination and to export to many destinations if they face fewer liquidity restrictions. Once they do start exporting to a given country, credit constraints do not affect the value and growth of their exports. Third, firms exporting to the smallest and furthest away economies tend to be more productive and less credit-constrained. Finally, the model allows one to consider an additional effect of the presence of credit-constrained potential exporters, by decomposing the consequences of a domestic currency appreciation on trade flows. Three effects hold: existing exporters will export less, the least productive existing exporters stop exporting and the most productive, financially-constrained non-exporters start exporting.

These results confirm the importance of the financial situation and credit constraints of firms on their export decisions.