Dynamics of Trade Credit in China*

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Abstract

Using Chinese manufacturing data, we show that the 2005-2011 credit expansion was associated with higher credit received by upstream manufacturing industries. However, this did not generate a similar increase in 'trade lending' from upstream industries to downstream industries, limiting the transmission of the credit expansion to the whole manufacturing sector. We develop a model that formalizes some of the key features of the production and financial structure of the Chinese economy to illustrate why a credit expansion that reaches the upstream sector may not fully cascade through trade credit to the whole economy.

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