



# Trade Diversion and Government Led Credit Provision: Evidence from China's VAT Rebate Loan Program

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## Motivation

- Anti-dumping (AD) investigations disrupt exporters by targeting a specific product in a specific destination.  
↑ working-capital cost of continuing to serve targeted markets.
- Whether firms sustain targeted relationships or retreat and divert exports: access to financing.

### Research Questions:

- How does **access to government credit** shape exporters' **adjustment** to AD investigations?

## Main Findings

- Cross-destination diversion.** Following anti-dumping investigations, affected firms reduce exports of targeted products to initiating countries, and expand exports of targeted products to non-hit destinations.
- Financial access.** Firms in loan program adopting cities are more likely to keep exporting to AD-hit destinations and divert two-thirds less of the targeted product elsewhere.
- Higher prices** in targeted destinations and **increased short-term borrowing** among firms with higher rebate-delay ratios

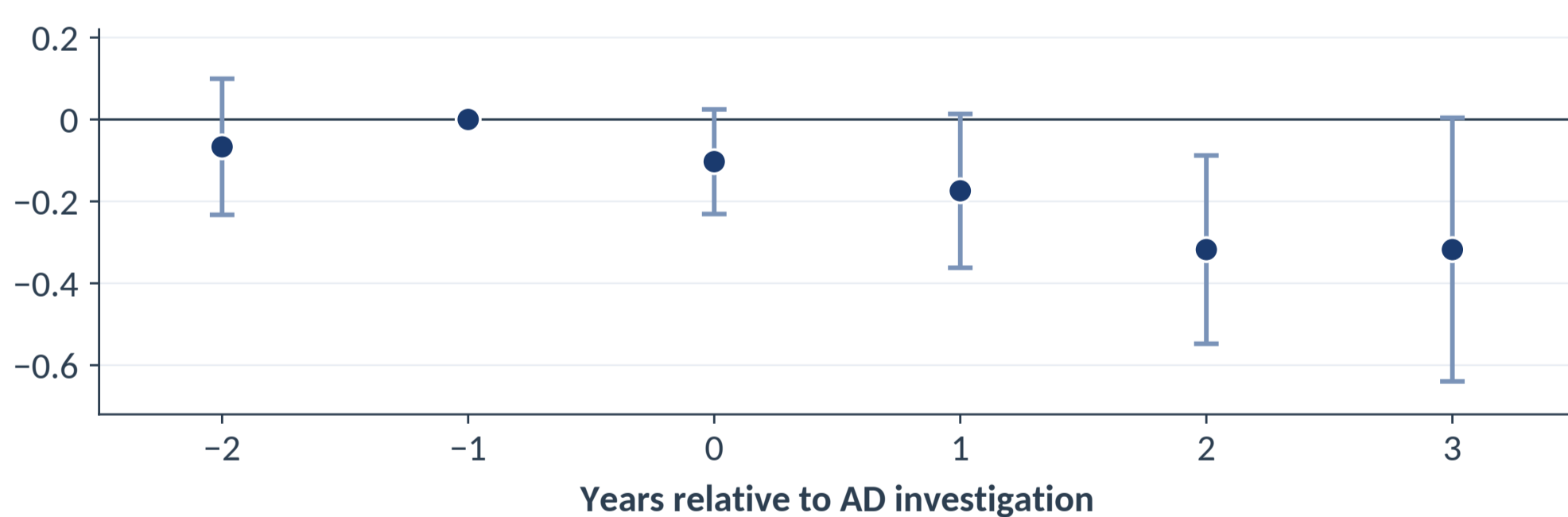
## Data

Firm-product-destination panel for Chinese exporters:

- Transaction-level customs records
- Firm-level tax and financial data (National Tax Survey)

## Empirical Strategy

**Direct effect:** exports of treated firms in targeted product-destination pairs, *before vs. after* AD.

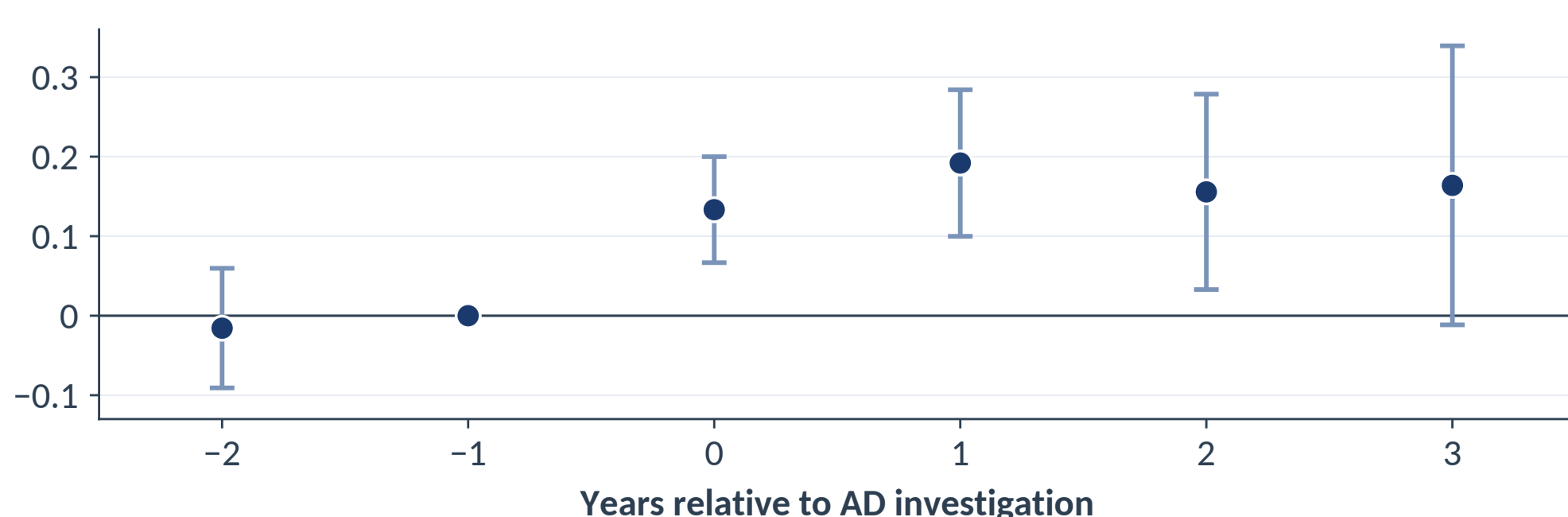


**Diversion effect:** exports of *hit vs. never-hit* firms in *non-hit* product-destination flows.

### Stacked Difference-in-Differences:

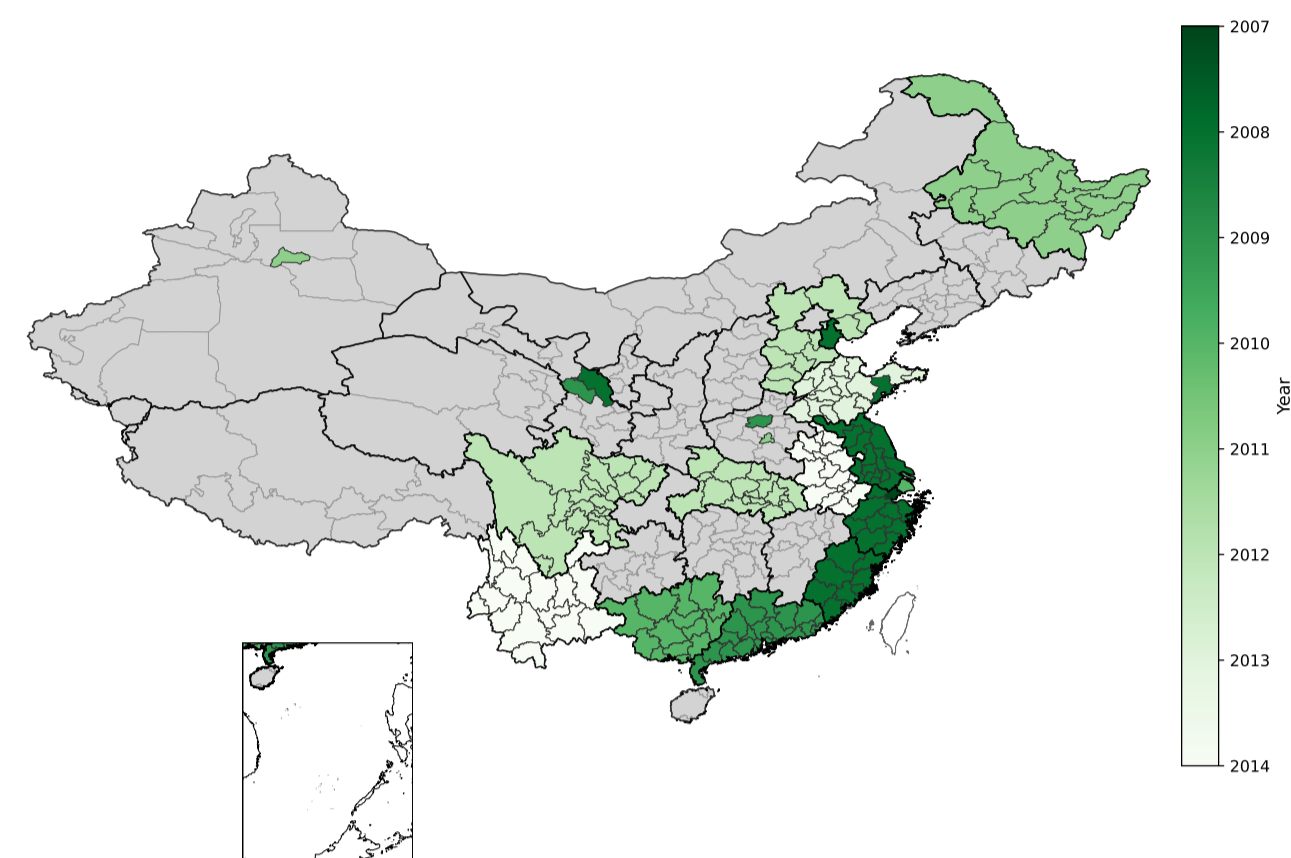
$$y_{f,p,c,t} = \beta(Treat_f \times Post_t) + \mu_{f,p,c} + \theta_{c,t} + \varepsilon_{f,p,c,t}$$

- $y_{f,p,c,t}$ : export outcome of firm  $f$  or product  $p$  to country  $c$  in year  $t$ .
- $Treat_f = 1$  for firms hit by AD; 0 for never-hit firms.
- $Post_t$ : indicator for periods after the AD shock
- FEs: Firm-product-country-cohort, country-year-cohort



## VAT Rebate Loan Program

Exporters can pledge **unfulfilled** value-added tax rebates as collateral for *short-term* bank loans.



## Loan Program and Trade Adjustment

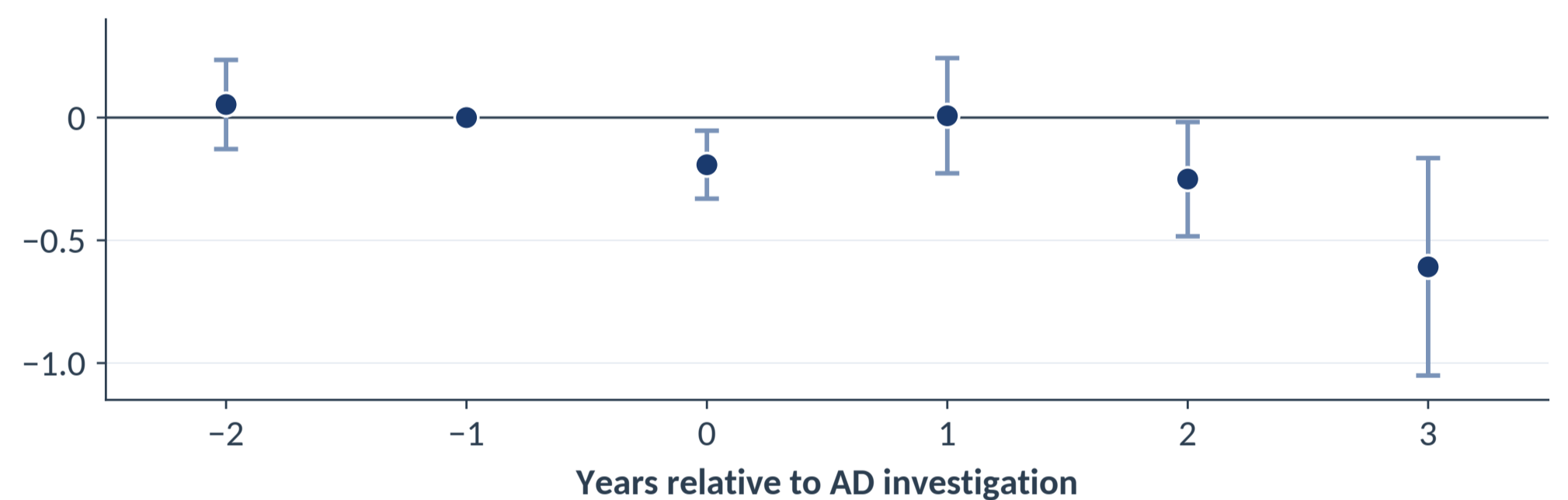
Firms in adopting cities:

### 1. Keep exporting to AD-hit destinations.

	Have Export	Log(Quantity)
$Post_t \times Loan_{city}$	0.054**	-0.020
	(0.025)	(0.146)

- Firm-Product-Destination FE, City FE, Year FE.

### 2. Divert two-thirds less of the targeted product elsewhere.



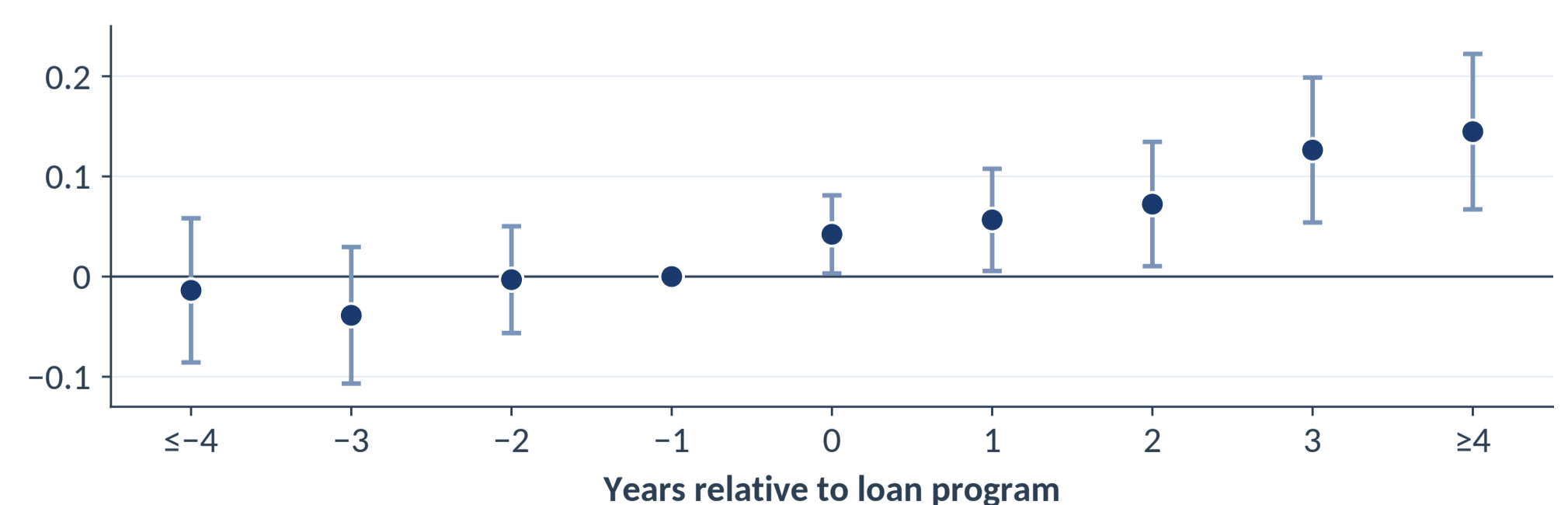
- Coefficients:  $Treat_f \times Post_t \times Loan_{city}$

## Profitable AD Destinations

- Within firm-product, higher prices in targeted destinations.

## Loan Program and Borrowing

- Firms with higher rebate delay ratio increase short-term borrowing after program adoption.



## Conclusion

Financial access shapes firms' **product-destination investment** decisions, and **domestic credit policy** can moderate the impact of foreign trade barriers.