

Firm Survival and Financial Development: Evidence from a Panel of Emerging Asian Economies

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Summary

Several empirical studies have documented the existence of a strong positive link between the functioning of the financial system and various aspects of economic activity such as investment, employment and economic growth. These studies, however, remain largely silent about the role of financial development in firms' survival prospects. Such evidence is important for understanding the mechanism by which financial development affects survival and can better inform policy makers, especially in the context of emerging Asian economies that are undergoing periods of deregulation and redesign.

This study provides for the first time a systematic empirical analysis of the impact of financial development on firm survival by looking at the direct effect of financial development indicators on firm survival after controlling for firm, industry and macroeconomic effects. Our empirical approach focuses on two of the most important aspects of financial development - banking development and stock market development.

We use data for five Asian economies - Indonesia, Korea, Malaysia, Singapore and Thailand – and we find that country-level indicators of financial development have an important role to play in influencing firm survival. When stock markets develop, both in terms of size and liquidity, firms' survival chances improve. When we consider whether the linkage between survival and financial development has evolved over time, we find that the beneficial effects of stock market development are more pronounced during the later years of our sample, while the adverse effects of bank intermediation have declined over time. Finally, after separating firms into different categories using their size as sorting device we find that large firms would benefit the most from developments in the stock market, while small firms are most severely affected from high levels of financial intermediation.