Influence of institutional differences on trade credit use during pandemics
Kung-Cheng Ho

Discussion by Shasha Li

IWH Halle and OVGU

CFTRC2022

Summary

- Interesting, clear and straightforward; answering to a timely research question
- How do the formal and informal institutions affect firms' use of trade credit during pandemic periods?
  - Formal institutional factors: (1) legal protections and regulations; (2) information transparency
  - Informal institutional factors: (1) religion; (2) social trust; (3) policy stability
  - Six current pandemic crisis: SARS (2003), H1N1 (2009), MERS (2012), Ebola (2014), Zika (2016), and COVID-19 (2020)
- Rich Data: 590,025 firm-year observations across 107 countries during six recent pandemic periods; 1990-2020

Main findings

- Formal and informal institutions influenced firms differently in terms of the use of trade credit during pandemic periods
- Formal factors slow down firms' use of trade credit during the pandemics
- In contrast, informal factors act like a "cushion"
- Results robust

Why important

- The pandemic shocks may create a short term liquidity problem
- Short-term funding of non-financial firms essentially comes from suppliers

Comment 1: formal vs informal

- Formal: BASEL, LEGSYM, LAW and CIFAR
  - Formal institutions represent structures of codified and explicit rules and standards that shape interaction among societal members (North, 1990)
  - CIFAR (firm transparency) defined as the availability of firm-specific information to those outside publicly traded firms
  - Other formal factors?
    - Three important types of formal institutions to managers include regulatory, political, and economic institutions (Holmes et al., 2013)
- Informal factors: ReligiousTensions, Trust, GovernmentStability, InternalConflicts, and ExternalConflict
  - Social trust: encapsulates two forms of social trust derived from the World Value Survey (WVS) questions; one is trust in major companies and the other is trust in government (Ho et al., 2020). Alternative measures?

Comment 1: formal vs informal

- Which is more important?
- Interactions between formal and informal factors
  - Understanding formal institutions requires understanding the logic and rationale underlying the solutions societal members develop (Scott, 2005), and which are embodied in informal institutions (North, 1990).

Comment 2: economic significance

- How much it matters?
- Real impacts? how to think about the real consequences?
  - e.g., Low trade credit and high formal credit vs high trade credit and low formal credit
  - Investment, productivity, efficiency of credit allocation?

Comment 3: endogeneity and robustness

- Pandemics are not random
  - Highly correlated with economic activities
  - Transportation
- Robustness: hypothesis 2 and 3 testing?

Comment 4: heterogeneous effects

- This paper: supply side TC, measured by accounts payable scaled by total assets (TC1)
- Checked biotechnology firms
- But how about big vs small firms? financially constrained vs not?
  - Smaller, riskier, capital constrained and less profitable firms, net trade credit borrowers (Bureau et al., 2021)
- Different stages of pandemics; length of pandemic time?

Further thoughts: lockdowns? technology?

- Pandemics: distancing
- Digital revolution
  - One of biggest trends in credit market: Fintech credit (and digital banks)
  - The digital transformation of trade finance: An urgent present and a bright future (World Bank 2021)

Conclusion

- Interesting paper; timely and important research question
- Clear and straightforward results from rich data
- It would be useful to explore the heterogeneity in effects and understand the mechanisms better
- Policy implications
- The role of digital revolution?