

Bank Concentration and Industry Structure: Evidence from China

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Abstract : The development of financial sector plays an important role in shaping industrial structure. However, evidence on the micro-level channels through which this relation manifest remains relatively sparse, particularly for developing countries. In this paper, we compile an industry-by-city dataset based on manufacturing firms and registered banks in 287 Chinese cities from 1998 to 2008. Based on a difference-in-difference approach, we find the highly concentrated banking sector decreases the competitiveness of firms in each manufacturing industry. There are two main reasons: i) bank accessibility successfully fosters firm expansion within each industry, however, only for sufficiently large enterprises; ii) state-owned enterprises are favored by the banking industry in China. The results are robust after considering alternative concentration and external finance dependence measures.

Keywords : bank concentration, China, difference-in-difference, industry structure

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