

The Flight of the Millionaires: Freedom of Movement and Trade Credit

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Abstract

We examine whether entrepreneurs' freedom of movement can be a potential concern for creditors when extending trade credit. Utilizing controlling shareholders' overseas residency status as a proxy for freedom of movement in Chinese firms, we show that their mobility negatively influences firms' ability to obtain trade credit, yet the negative association is mitigated if the overseas jurisdiction has an extradition treaty with China. The *fleeing entrepreneurs* concern of trade creditors is especially detrimental to firms that are perceived as less trustworthy *ex ante* (i.e., lower social trust, greater expropriation risk, and higher mobility of assets). Our results, through the lens of trade credit, shed light on the hidden costs of entrepreneurs' freedom in corporate financing activities by echoing the idea that "freedom is never free".

JEL Classification: G32, G34

Keywords: Freedom of Movement; Mobility; Residency; Control Rights; Trade Credit; Trust

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1. Introduction

“Chen Tianyong, a Chinese real estate developer in Shanghai, boarded a flight to Malta last month with no plans to return anytime soon.”

—February 23, 2019, The New York Times¹

“The former Nissan boss Carlos Ghosn reportedly used a second French passport during his high-stakes escape from Japan to Lebanon on Sunday. Ghosn surrendered his four passports to authorities in November 2018 when he was arrested: one Brazilian, one Lebanese, and two French. But prosecutors let Ghosn access one French passport in May to use internally in Japan.”

—January 2, 2020, The Business Insider²

Freedom of movement is an established human right recognised in a range of international instruments.³ Immigration restrictions, which are enforced by almost all states, curtail freedom by preventing people from going where they wish to go. In spite of the restrictions, people have a right to immigrate to other states, for example obtaining overseas residence permits, which endorses additional mobility.

Nonetheless, the right to immigrate can be controversial in the business context, with the *fleeing entrepreneurs* phenomenon drawing increasing concerns among stakeholders (e.g., investors, employees, customers, suppliers, and the community at large). The cases of Chen Tianyong and Carlos Ghosn echo this phenomenon as their immigration decision, rather than being a personal choice, has profound implications for corporate activities. Specifically, in relation to corporate financing, firms with such entrepreneurs are perceived as less trustworthy as these high-profile business people have the means to pick up and leave immediately if things start to go sideways in their business, thanks to their overseas residence permits. In this paper, we investigate whether and how entrepreneurs’ freedom of movement affects corporate financing, with a particular focus on trade credit.

¹ See <https://www.nytimes.com/2019/02/23/business/china-entrepreneurs-confidence.html>

² See <https://www.businessinsider.com/carlos-ghosn-fled-japan-secret-second-french-passport-lebanon-afp-2020-1?r=US&IR=T>

³ For example, Article 13 of the Universal Declaration of Human Rights asserts that a citizen of a state in which that citizen is present has the liberty to travel, reside in, and/or work in any part of the state he or she pleases, within the limits of respect for the liberty and rights of others, and that a citizen also has the right to leave any country, including his or her own, and to return to his or her country at any time. In Australia, the right to freedom of movement is contained in articles 12 and 13 of the International Covenant on Civil and Political Rights (ICCPR).

Trade credit is regarded as a short-term informal financing instrument (Fisman and Love, 2003). Unlike formal financial intermediaries, e.g., banks, which typically lend conditional on collateral (Gregory and Tenev, 2001) and rely on formal institutions such as courts or government channels to enforce repayment of loan contracts (Zhang and Booth, 2001), trade creditors take on the future default risk of their customers, as very often there is no collateral or guarantee. As such, whether trade credit is extended largely depends on trust between suppliers and customers (Ayyagari, Demircuc-Kunt and Maksimovic, 2010; Wu, Firth and Rui, 2014; Levine, Lin and Xie, 2018).

From a trade creditor perspective, firms with entrepreneurs who have well-prepared exit pathways create suspicion of being untrustworthy. Even though they may immigrate for a diversity of reasons, e.g., investment, lifestyle, healthcare, education, and political environment (Furnham, 1990; Freeman, 1993; Winter-Ebmer, 1994), they are seemingly less committed to their debt obligations *ex ante* and, once they default *ex post*, repayment of trade creditors will not be a priority. Duarte, Siegel and Young(2012) show that it is particularly impressions of borrowers' trustworthiness that matter for investors' decisions and, indeed predict borrowers' behaviour. Therefore, it is reasonable to conjecture that, when entrepreneurs are entitled with freedom of movement, creditors, in lack of trust, are more likely to be conservative when extending trade credit to such firms.

While empirical identification of the effect of entrepreneurs' freedom of movement on firms' use of trade credit is challenging as freedom is a broadly defined concept and hard to measure straightforwardly, China's mandatory disclosure of controlling shareholders' overseas residency information, required by the China Securities Regulatory Commission (CSRC), provides us with a unique opportunity to solve this problem. Controlling shareholders generally denote natural persons who are ultimate controllers of firms, either directly or indirectly. Controlling shareholders are representative for entrepreneurs as in most East Asian countries like China, where listed firms are characterized by highly concentrated ownership structures. Under the managerial entrenchment perspective, concentrated ownership enables controlling shareholders to control the firm effectively (e.g., Claessens, Djankov, Fan and Lang, 2002). We manually collect and crosscheck their residency information from multiple sources and utilize it as a proxy for freedom of movement.

Given that the controllers of state-owned enterprises (SOEs) are mainly the state or its representatives, who are unlikely to be natural persons, in this study, we focus on non-SOE firms. Besides, in comparison to the bank favoritism shown to SOEs, the non-state sector in

China relies more on informal mechanisms⁴, e.g., trade credit, to finance itself (Allen, Qian and Qian, 2005; Allen, Qian, Tu and Yu, 2019)⁵. China provides a rich paradigm to study informal finance. The development of the financial system lags behind the fast-growing economy and the informal sector nurtured millions of small firms that are usually not lent to by banks and financial markets (Allen, Qian and Xie, 2019).

Using 12,317 firm-year observations for non-SOE firms in the Chinese stock market from 2004 to 2017, our baseline regression results show that trade credit received significantly decreases in firms whose controlling shareholders' residency status is overseas. This relation is also economically meaningful. Considering an "average" firm that has the sample mean value of trade credit received (14.8% of total assets), controlling shareholders' overseas status explains a 7.91% drop in the sample mean value. The marginal decrease in firms' capacity for trade credit financing is 8 million U.S dollars on average, which tends not to be negligible.

In order to evaluate the variation in freedom of movement, we also take into account whether the overseas country/region has signed an extradition treaty with mainland China, because such agreements can enable them to catch criminals living in each other's jurisdiction, legally constraining controlling shareholders' mobility. Residence rights in countries/regions without extradition treaties create more suspicion about the non-return of a flight thus such entrepreneurs are placed with less trust. Our empirical results confirm this conjecture by showing that the negative association between the firm's trade credit and its controlling shareholders' foreign residency status diminishes, if the overseas jurisdiction has signed an extradition treaty with China.

One could reasonably be concerned that controlling shareholders' overseas residency status could be endogenous. For example, there might still be some omitted trends that simultaneously drive the decisions of controlling shareholders to apply for overseas residency permits and whether firms receive trade credit. To establish causality, we use the PSM-DID approach with staggered adoption, i.e., firm-level dynamic changes in controlling shareholders' overseas residency status over the sample period, to determine the effect of a sudden change in mobility on trade credit. This approach allows the variation in treatment timing and the dynamic treatment effects. We find that firms experience a decline in trade credit received when their

⁴ The classification of trade credit as informal finance in China, given its non-delegated nature, is consistent with the existing literature on the Chinese informal financial system (e.g., Ayyagari, Demirguc-Kunt and Maksimovic, 2010; Cull, Xu and Zhu, 2009).

⁵ Based on a sample of non-financial listed firms from 1999 to 2009, Wu, Rui and Wu(2012) find that the ratios of accounts receivable and payable to total assets are 14.5% and 10.9%, respectively, while the ratios of accounts receivable and payable to total sales are 34% and 20%, respectively.

controlling shareholders start to be granted with overseas residency permits, whereas firms exhibit a surge in trade credit received when either existing controlling shareholders with permits exit or abandon the permits.

We also make other efforts to alleviate the endogeneity concerns. For example, we utilize instrumental variable (IV) estimation by using the historical Christian forces in different regions of China between late Qing Dynasty and early republic of China to proxy for foreign presence in China such as *Proportion of Christians*, *Proportion of Pupils Registered in Christian Schools*, and *Leased Territory*. It is more likely for controlling shareholders in regions with strong Christian forces to obtain overseas residency permits given the influence of history and culture there, but less likely that these historical institution features affect firms' use of trade credit.

In addition, to circumvent the potential confounding effect arising from individuals' biographical traits, we also control for controlling shareholders' age, gender, political connections, and various forms of related work experience in our further analysis. Moreover, we implement placebo tests to investigate the possibility that our results are purely driven by chance by randomly select a group of firms as pseudo-treated firms with overseas controlling shareholders for 10,000 times. Collectively, these identification tests plausibly suggest that freedom of movement has a negative, direct effect on firms' ability to obtain trade credit.

We next seek to verify the behind-the-scenes mechanism that plausibly drives the results. To do so we use the DID approach to examine if the exogenous changes in the hypothesized mechanism, i.e., trust, leads to a larger decrease in trade credit received for firms with overseas controlling shareholders. The anti-corruption campaign launched after the 18th National Congress of the Communist Party of China in November 2012, as an exogenous policy shock, has dramatically increased the political uncertainty not only for politicians but also for entrepreneurs ([Liu, Shu and Wei, 2017](#)). The surge in political risk has significantly increased the likelihood of flightism by entrepreneurs with overseas residency permits. Thus, firms with such controlling shareholders experience an unexpected decline in the trust between them and the suppliers after the campaign. Our DID results show that the exogenous decline in trust further reduces firms' ability to obtain trade credit, which provide direct evidence to the trust mechanism.

We also divide our sample in several ways associated with trust. Specifically, we construct two regional level indexes, i.e., "Runaway" and "Fintech Lending", to proxy for social trust. "Runaway" index captures the probability of flightism at the regional level, which is calculated

using the volumes of the keyword search for “Paolu” in *Baidu.com*⁶, by netizens in different regions of China. “Fintech Lending” index represents the regional loan success rate of each province in *RenRenDai* platform⁷. Consistently, we find that, for trade creditors, concern over *fleeing entrepreneurs* is especially detrimental to firms located in lower-social-trust regions. Apart from heterogeneity in social trust, we further find the negative effect is more pronounced in firms with higher expropriation risk and mobility of assets, which are perceived as less trustworthy.

Relative to the trust mechanism, there is an alternative channel in that one can argue that controlling shareholders obtain overseas residency rights so as to expand into overseas markets, but the risk of the overseas business is relatively difficult for trade creditors to evaluate, resulting in less trade credit provision. In support of this argument, we should document a significant positive relationship between controlling shareholders’ residency status and firms’ export performance. Our further empirical analysis on firms’ export activities, however, suggests there is no such relation, which helps rule out this possibility.

Our findings also strongly hold under a battery of robustness checks. In addition to the trade credit received, we also examine whether controlling shareholders’ residency status can affect firms’ provision of trade credit and the trade credit balance. Further, as the “less trustworthy” concern can be more pressing for trade creditors in the case that multiple controlling shareholders have overseas residency rights, we also identify its effects on firms who have such a structure. To alleviate the concern that the relationship only holds in firms whose use of trade credit is in the highest or lowest quantile, we also evaluate whether the amount of existing trade credit matters in explaining the relationship.

The rest of the paper proceeds as follows. Section 2 introduces related literature and institutional background. Section 3 provides the sample, measurement of variables, and descriptive statistics. Section 4 presents the empirical results. Section 5 discusses the channels through which freedom of movement affects trade credit and robustness checks. Section 6 concludes.

2. Related literature and Institutional Background

2.1 Related Literature

⁶ The English meaning of “Paolu” is “Runaway”. *Baidu.com* is the biggest search engine in China.

⁷ *Renrendai* is the largest Peer-to Peer lending platform for financial services such as loans, debts, investment, and others in China.

Our study contributes to the extant literature in three ways. First, our paper is the first to study how the conflicts between entrepreneurs' mobility rights and control rights affect corporate financing activities. Entrepreneurs may be legally classified as natural persons or juridical persons.⁸ As natural persons, they are entitled with equal freedom of movement once granted with overseas residency permits. However, with control rights in hand, their mobility can be a matter of concern for stakeholders. Previous studies on corporate control mainly focus on how controlling shareholders utilize control rights to expropriate other stakeholders,⁹ without looking at the potential costs of their activities as natural persons. Our perspective, regarding their citizenship, provides implications for the governance of controlling shareholders, by identifying the price of their freedom through the lens of trade credit.

Second, our study is related to the emerging studies on the effect of entrepreneurs' immigration status on corporate governance. For example, [Chen, Chen, Li and Ni\(2018\)](#) highlight the agency problem of foreign residency rights by examining its impact on corporate fraud. [Hou and Liu\(2020\)](#) find firms whose controlling persons have foreign residency rights may hold more cash. However, they both focus on how controlling shareholders' motivation or behaviour alters due to their foreign residency rights and the subsequent consequences on corporate governance. Our study is the first to highlight the potential cost of residency rights from the perspective of stakeholders, i.e., trade creditors.

Third, while our focus is on the impact of freedom of movement on trade credit, our findings complement a large number of studies that work on the role of trust in financial markets. [Levine, Lin and Xie\(2018\)](#) find that liquidity-dependent firms in high-trust countries obtain more trade credit during banking crises than similar firms in low-trust economies. [Lins, Servaes and Tamayo\(2017\)](#) document that the building of firm-specific social trust can be thought of as an insurance policy that pays off when investors and the overall economy face a severe crisis of confidence. Using transaction-level data from a U.S. peer-to-peer lending platform, [Duarte, Siegel and Young\(2012\)](#) show that borrowers who appear more trustworthy are more likely to obtain a loan. More broadly, [Knack and Keefer\(1997\)](#) show that social trust is associated with faster economic growth, and [La Porta, Lopez-De-Silanes, Shleifer and Vishny\(1997\)](#) document a link between trust and corporate performance. We add to this literature by showing that the

⁸ The first group refers to individuals, innately capable of assuming obligations and exercising rights. The second group refers to entities with legal personhood, including collective entities, juridical persons, or corporations.

⁹ See [La Porta, Lopez-De-Silanes and Shleifer\(1999\)](#), [Claessens, Djankov and Lang\(2000\)](#), [Claessens, Djankov, Fan and Lang\(2002\)](#), [Faccio and Lang\(2002\)](#), [Lemmon and Lins\(2003\)](#), [Gompers, Ishii and Metrick\(2010\)](#), [Lin, Ma and Xuan\(2011\)](#), and [Lin, Ma, Malatesta and Xuan\(2011, 2012\)](#).

trust between a firm and its trade creditors can be influenced by the controlling shareholders' freedom of movement, which further affects the firm's financing capacity through trade credit.

2.2 The *Fleeing Entrepreneurs* Concern

Although it is no secret that China has been a wealth creation machine over the past two decades, that wealth is increasingly on the move. According to the *Global Wealth Migration Review 2019*, published by AfrAsia Bank and its research partner New World Wealth, over 15,000 Chinese high-net-worth individuals (HNWIs), i.e., persons with wealth over US\$1 million, still chose to migrate to other countries in 2018, representing the most significant migration of any country. Focusing on the "emerging emigration trends", the Hurun Research Institute released a report *Immigration and the Chinese HNWIs 2018*, based on a survey of 224 Chinese HNWIs with an average wealth of US\$4.5 million who had already emigrated, were applying to emigrate, or planned to do so in the future. According to the report, 90% of the respondents were considering an emigration plan, and 14% regarded themselves as global citizens with financial freedom and visa freedom. Concerns in the areas of education and environment remained the key drivers of emigration, accounting for 83% and 69% of the reasons given, respectively.

There is also anecdotal evidence in relation to the emigration of economic criminals. In 2014, China launched the Skynet campaign to seize corrupt fugitives and confiscate their illicit assets. In 2015, Interpol issued Red Notices for the 100 most-wanted corrupt Chinese fugitives, including high-profile businessmen and government officials. For example, Yan Yongming, a former chairman of Tonghua Golden-Horse Pharmaceutical Industry Co in Jilin province. He fled in 2001, first to Australia, under the name Liu Yang, before gaining New Zealand citizenship. In 2015, he was ranked at number 5 on Interpol's list of the 100 Chinese corruption fugitives most wanted by Beijing, for allegedly embezzling more than 180 million yuan.

2.3 Disclosure of Controlling Shareholders' Residency Information

In contrast to developed markets like the U.S., East Asian economies have highly concentrated corporate ownership, with the majority of shares held by the controlling shareholders who ultimately control the firm (Claessens, Djankov and Lang, 2000; Claessens, Djankov, Fan and Lang, 2002). This type of ownership structure enables the controlling shareholders to gain effective control over the firm. In China, most listed firms are partially privatized, and thus corporate ownership is highly concentrated in the hands of a few investors, including SOEs, companies, individuals/families, and institutions. Controlling shareholder(s)

can be a natural person or a small group of natural persons who are closely related that owns more than 50% of a firm's shares. In some cases, a natural person or a small group of natural persons who owns less than 50% is(are) considered as controlling shareholder(s) if they can exert significant influence on firm decisions. In our paper, we identify controlling shareholders closely following the disclosure in annual reports.

On January 6, 2003, the CSRC released a revised version of "Information Disclosure of Firms Issuing Public Securities # 2 – Content and Format of the Annual Report". One of the key revisions applied to Rule 25, concerning the disclosure of controlling shareholders' identity information, and read as follows: *"A firm's controlling shareholder is either the shareholder with the highest share ownership, or the shareholder who can control the board composition and make key decisions through share ownership, contracts, or other legal arrangements. If the controlling shareholder is a legal person, then the firm should report the legal person's name, legal representative, founding date, registered capital, and main operational activities. If the controlling shareholder is a natural person, the firm should report his/her name, nationality, residency information (whether he/she has obtained residency status in other countries/regions), and professions and titles held in the last five years."*

According to the disclosure requirement, from 2003, firms are required to disclose residency information on controlling shareholders who are natural persons, i.e., individuals. Residency information can be collected in two types of ownership structures: (1) where there is a controlling shareholder who happens to be a natural person or (2) where there is an ultimate controlling shareholder, defined according to the Corporation Law, who is not a direct shareholder, but can make critical decisions for the firm (e.g., a natural person who controls a firm through an intermediary controlling entity) (Chen, Chen, Li and Ni, 2018).

3. Sample Selection, Variable Measurement, and Descriptive Statistics

3.1 Sample Selection

We start with all non-SOEs firms (i.e., private firms) listed on the Shanghai and Shenzhen Stock Exchanges in the Chinese stock market from 2004 to 2017. We focus on non-SOEs mainly because their controlling shareholders are more likely to be natural persons, as described in Section 2.2, whereas SOEs are mostly controlled by the state and/or its representatives. We collect the controlling shareholders' residency status by manually checking, matching, and verifying information from the prospectus, the annual report, the Sina Finance

and Royalflush Finance platforms, and the CSMAR database¹⁰. We obtain firm-level financial and accounting information from the CSMAR database. We exclude financial and utility firms, and observations with missing values, thus ending up with 12,317 firm-year observations.

Table 1 describes the distribution of firm-year observations from 2004 to 2017 by year, industry, and country/region, respectively. Panel A reports the sample distribution by year. The firm-year observations of private firms show an upward trend across our sample period (increasing from 141 in 2004 to 1,825 in 2017). Meanwhile, the number and percentage of firm-year observations with controlling shareholders who have obtained overseas residency rights also increase by year in our sample period. Specifically, in 2004, The percentage of firm-year observations with controlling shareholders who obtain overseas residency rights across the overall sample (*Overseas %*) is only 6.38%, while it doubles to 13.48% in 2017, indicating that it has become a trend for controlling shareholders of Chinese non-SOEs to obtain overseas residency permits.

Panel B reports the sample distribution by industry. Among all industries, manufacturing is dominant, with 8,684 firm-year observations. *Overseas %* ranges from 0 to 100% across the different industries, most of which exhibit non-zero observations for overseas residency status, the exceptions being accommodation and catering, residential services, repairs and other services, and health and social work. Specifically, *Overseas %* is 100% in the education industry, probably due to its relatively small sample, and 26.67% in the real estate industry.

Panel C reports the sample distribution by the country/region in which the controlling shareholders have obtained overseas residency rights. Apart from Hong Kong, Macao, and Taiwan¹¹, Canada, the United States, and Australia are the three most attractive countries for Chinese entrepreneurs looking to migrate.

<Insert Table 1 about here>

3.2. Variable Measurement

3.2.1 Measuring Freedom of Movement and Trade Credit

We use controlling shareholders' overseas residency status as a proxy for freedom of movement, and hypothesize that those with overseas residency permits exhibit higher mobility. We define the variable *Overseas* as a dummy variable that equals one if any of a firm's

¹⁰ Sina Finance: <https://finance.sina.com.cn/>; Royalflush Finance: <http://www.10jqka.com.cn/>.

¹¹ Due to historical reasons, Chinese (mainland) passport holders without a Hong Kong, Macao, or Taiwan visa cannot freely enter these regions unless in transit, and vice versa.

controlling shareholders in the current year has residency rights outside mainland China, and zero otherwise.

In order to evaluate the variation in freedom of movement, we also take into account whether the overseas country/region has signed an extradition agreement with mainland China, because such agreements between two countries/regions can enable them to catch criminals living in each other's jurisdiction, implicitly limiting controlling shareholders' freedom by enlarging the legal jurisdiction. Among the countries/regions in which the controlling shareholders in our sample reside, Korea, the Philippines, France, Australia, Italy, and Argentina have signed extradition agreements with mainland China.¹² Thus, we define *Overseas_Extradition_Yes* as a dummy variable that equals one when any of a firm's controlling shareholders in the current year has residency rights in one of those countries, and zero otherwise; and *Overseas_Extradition_No* as a dummy variable that equals one when any of a firm's controlling shareholders in the current year has residency rights in countries/regions without extradition agreements with mainland China, and zero otherwise.

The focus of our paper is how controlling shareholders' mobility affects firms' use of trade credit, rather than the provision of trade credit. Therefore, we measure trade credit by *Trade Credit Received*, defined as the total of notes payable, accounts payable, and unearned revenue, divided by total assets as of the fiscal year end, following previous literature.

3.2.2 Measuring Control Variables

Following the trade credit literature (Peterson and Rajan, 1997; Love, Preve and Sarria-Allende, 2007; Wu, Rui and Wu, 2012), we control for a vector of firm characteristics (including performance and governance) that may affect a firm's use of trade credit. All control variables are computed for firm *i* over its fiscal year *t*.

The performance variables include leverage, *LEV*, measured by the total of short-term loans, long-term loans, long-term loans due within one year, and bonds payable, divided by total assets as of the fiscal year end; return on assets, *ROA*, measured by net income for the fiscal year divided by total assets as of the fiscal year end; property, plant and equipment, *PPE*, measured by the total of fixed assets and construction in progress, divided by total assets as of the fiscal year end; firm age, *Age*, measured by the natural logarithm of firm age in the current year; operating cash flow, *CFFO*, measured by net operating cash flow for the fiscal year

¹² As of July 2019, the countries/regions that have signed extradition agreements with mainland China are South Korea (2000), the Philippines (2001), France (2007), Australia (2007), Italy (2010), and Argentina (2013).

divided by total sales as of the fiscal year end; firm size, *Size*, measured by the natural logarithm of the firm's total assets as of the fiscal year end; *Liquidity*, measured by current assets minus current liabilities, divided by total assets as of the fiscal year end; *ST*, measured by a dummy variable that equals one if a firm receives special treatment in the current year, and zero otherwise; *SEO*, measured by a dummy variable that equals one if the firm has had a seasoned equity offering or rights offering over the past two years, and zero otherwise.

The governance variables include *Board Size*, measured by the natural logarithm of the number of board directors; independence of the board, *Independent*, measured by the ratio of the number of independent directors to the total number of directors; *Top1*, measured by the ratio of the number of shares held by the largest shareholder to the total number of shares outstanding; *Pay*, measured by the natural logarithm of the total compensation of the top three executives; *CEO Duality*, measured by a dummy variable that equals one if a firm's chairman of the board also serves as CEO in the current year, and zero otherwise. Detailed variable definitions can be found in Appendix I.

3.3 Descriptive Statistics

Panel A of Table 2 reports the summary statistics for the dependent variables, independent variables, and control variables. The mean value of *Trade Credit Received* is 0.148, indicating that the trade credit received by non-state firms in the Chinese stock market, on average, accounts for 14.8% of total assets. In unreported results, we find that the trade credit received accounts for 40.58% of total debts, which is significantly higher than the 25% reported by [Levine, Lin and Xie\(2018\)](#) for 3,500 listed firms across 34 other countries. The average value of *Overseas* is 0.114, with a standard deviation of 0.318. Panel B of Table 2 shows the Pearson correlation matrix for the main variables used in the empirical analysis. According to the correlation matrix, most of the correlations between the variables are below 0.5, suggesting our models are less likely to suffer from the multicollinearity problem.

<Insert Tables 2 about here>

4. Empirical Results

4.1 OLS Specification

To investigate the relationship between controlling shareholders' freedom of movement and firms' use of trade credit, we first estimate the following model as our baseline regression:

$$Trade\ Credit\ Received_{i,t} = \beta_0 + \beta_1 Overseas_{i,t} + \sum_{p=1}^m \beta_p Controls_{i,t-1} + \sum Year_t + \sum Industry_t + \sum Region_t + \epsilon_{i,t} \quad (1)$$

where i indexes the firm and t the year. The main dependent variable is firm-level use of trade credit, *Trade Credit Received*. The primary independent variable is *Overseas*. All control variables are lagged by one year to alleviate potential endogeneity issues. We include year fixed effects to account for intertemporal variation that may affect the relation between mobility and trade credit, and industry¹³ and regional fixed effects to cater for idiosyncratic differences between industries/regions, in our baseline model specifications. Standard errors are robust to heteroskedasticity and clustered at the industry level (Petersen, 2009). To ensure that our results are not driven by outliers, all continuous variables are winsorized at the 1st and 99th percentiles.

Table 3 presents the baseline ordinary least squares (OLS) regression results for the impact of controlling shareholders' freedom of movement on trade credit. In columns (1) and (2), the independent variable is *Overseas*, with year, industry, and region fixed effects controlled in the latter column. In both model specifications, freedom of movement, proxied by *Overseas*, is negatively associated with firms' use of trade credit (the coefficients are -0.0089 and -0.0117, respectively). This evidence supports the dark side of freedom of movement: it is less likely for creditors to extend trade credit to firms whose controlling shareholders obtain overseas residency permits.

Column (3) presents the regression results regarding how the extradition treaty between mainland China and the countries/regions of residency affects the association between the controlling shareholders' freedom of movement and the trade credit received. We find that the coefficient of *Overseas_Extradition_No* is significant (negatively so) whereas the *Overseas_Extradition_Yes* is not significant.¹⁴ This further evidence suggests that the negative association between freedom of movement and trade credit is mitigated if the overseas jurisdiction has signed an extradition treaty with mainland China. It is probably because an extradition treaty between two countries/regions can enable them to catch criminals living in

¹³ We control for industry fixed effects based on the CSRC industry classification.

¹⁴ According to Panel C in Table 1, there are 151 observations for which we are unable to locate the countries/regions of residency, given all accessible information sources. This leads to the further failure of identifying extradition treaty. We first treat these 151 observations as *Overseas_Extradition_No* and report the results in column (3). Further, we conduct robustness checks by dropping these observations and treating them as *Overseas_Extradition_Yes*. Across all three sample sets, we consistently find that the coefficients of *Overseas_Extradition_No* are significant (negatively so).

each other's jurisdiction, which would implicitly limit the controlling shareholders' freedom by enlarging the legal jurisdiction.

<Insert Table 3 about here>

4.2 PSM-DID Approach

While we have shown a robust negative relation between freedom of movement and firms' use of trade credit, the causal interpretation remains hypothetical. First, one could reasonably be concerned that controlling shareholders' overseas residency status could be endogenous. Although we have controlled in Eq. (1) for a standard set of variables that previous studies have shown to affect trade credit, there might still be some omitted trends that simultaneously drive the decisions of controlling shareholders to apply for overseas residency permits and whether firms receive trade credit. For example, it is possible, of course, that controlling shareholders in high-risk industries are more likely to apply for overseas residency permits, while firms affiliated with those industries are less likely to be financed by trade credit due to the inherently high risk. Second, by no means are firms randomly assigned to have controlling shareholders who are granted overseas residency permits. These firms may differ systematically, in various dimensions, from those without such controlling shareholders, i.e., there may be self-selection bias. To address above endogeneity concerns, we use the PSM-DID approach with staggered adoption, i.e., firm-level dynamic changes in controlling shareholders' overseas residency status over the sample period, to determine the effect of a change in freedom of movement on trade credit.

Panel A in Table 4 summarizes the dynamic changes of controlling shareholders' overseas residency status. Firms are grouped based on how the number of such controlling shareholders varies over the sample period. Group 1 include firms in which none of the controlling shareholders have ever obtained residency permits. Group 2 include firms in which there are controlling shareholders with overseas residency permits persistently. Group 3 include firms in which the number of controlling shareholders with overseas residency permits changes from zero to non-zero between 2004 and 2017. Group 4 include firms in which the number of controlling shareholders with overseas residency permits changes from non-zero to zero between 2004 and 2017. Group 5 include firms that experience multiple changes in the number of controlling shareholders with overseas residency permits over the sample period.

Treated is a dummy variable that equals one if a firm is in the treatment group, and zero otherwise. *Post* is a dummy variable that equals one if the observation year is after the firm-level staggered change, and zero otherwise. As many other factors can determine a firm's

likelihood of have a controlling shareholder to change his/her residency status and to the extent that these factors are also correlated with firms' use of trade credit, We match each treatment observation with the control observation by 1:5, while imposing a caliper of 0.00005 and common support to run the PSM-DID regressions.

Panel B reports the PSM-DID analysis for trade credit dynamics. In column (1), the treatment group is Group 3 (*From Zero to Non-zero*) and the control group is Group 1 (*Zero*). This model specification allows the interaction term *Treated*Post* to capture how the sudden increase in controlling shareholders' mobility affects the use of trade credit. The negative coefficient (-0.0221) on *Treated*Post* confirms that compared to the control group with zero such controlling shareholders, firms in the treatment group experience a decline in trade credit received when their shareholders start to have overseas residency permits. In column (2), the treatment group is Group 4 (*From Non-zero to Zero*) and the control group is Group 2 (*Non-zero*). This model specification allows the interaction term *Treated*Post* to capture how the sudden decrease in controlling shareholders' mobility affects the use of trade credit. The positive coefficient (0.0377) on *Treated*Post* confirms that compared to the control group, firms in the treatment group exhibit a surge in trade credit received when either existing controlling shareholders with overseas residency permits exit or they abandon the permits. Overall, these two-way findings consistently confirm the negative relation between freedom of movement and firms' use of trade credit.

<Insert Table 4 about here>

4.3 Other Identification Strategies

Though the use of the DID approach is very powerful at ruling out alternative explanations, it does not entirely eliminate the possibility of an unobservable that affects the treatment and control groups differently and is correlations with the outcome variable (*Trade Credit Received*). We address this concern in several alternative ways as follows.

4.3.1 Instrumental variable (IV) estimation: the Christian Occupation of China between Late Qing Dynasty and Early Republic of China

A valid IV should be correlated with the controlling shareholders' propensity to obtain an overseas residency permit but uncorrelated with the firm-level use of trade credit. Therefore, we use the historical Christian forces in different regions of China between late Qing Dynasty and early republic of China to proxy for foreign presence in China. The first instrument variable *Proportion of Christians* is measured by the natural logarithm of one plus the number of

Christians divided by the estimate population between 1901 and 1920 multiplied by 10,000 at the province level. The second instrument variable *Proportion of Pupils Registered in Christian Schools* is measured by the natural logarithm of one plus the number of pupils registered in Christian schools divided by the estimate population between 1901 and 1920 multiplied by 10,000 at the province level.¹⁵ The third instrument variable *Leased Territory* is measured by a dummy that equals one if any region in a province has been a leased territory historically, and zero otherwise.¹⁶ It is more likely for controlling shareholders in regions with strong Christian forces to obtain overseas residency permits given the influence of history and culture there, but it is less likely that these historical institution features are correlated with regional economic conditions and will affect the use of trade credit at the firm level.

Table 5 presents the two-stage least squares (2SLS) IV estimation results. Columns (1), (3), and (5) present the results of the first-stage regressions, where the dependent variable is *Overseas*. Consistent with our prediction, the reported coefficients for the instruments are positive and significant at the 1% level, suggesting that these instruments are positively related to the variable *Overseas*. In addition, the Cragg-Donald Wald F-statistics are 97.031, 107.68, and 43.764, respectively, rejecting the null hypothesis that the IV is weak (Cragg and Donald, 1993; Stock and Yogo, 2005). Columns (2), (4), and (6) of Table 5 presents the second-stage regression results, where the dependent variable is *Trade Credit Received*. The coefficients for the instrumented *Overseas* are all negative and statistically significant, reaffirming our baseline results.

<Insert Table 5 about here>

4.3.2 Controlling Other Personal Characteristics of Controlling Shareholders

The effect of controlling shareholders' residency information on trade credit could be confounded by other personal characteristics, such as age, gender, work experience etc. To circumvent the potential confounding effect arising from individuals' biographical traits, we also control for shareholders' age, gender, political connections, and various types of related work experience in our regressions.

Table 6 presents the regression results when we control for other personal characteristics of the controlling shareholders. In columns (1) to (5), we separately add each one of five

¹⁵ We obtain the regional data for Christian forces from Stauffer, M.T., 1922. The Christian occupation of China: a general survey of the numerical strength and geographical distribution of the Christian forces in China made by the Special Comm. on Survey and Occupation, China Continuation Comm., 1918-1921.

¹⁶ We obtain the data for leased territory information on regional level from Yan et al. (2012). The Statistics Book of Modern Chinese History.

characteristics of controlling shareholders, and then in column (6) we include them all together. *Controller Age* is the controlling shareholder's age. *Gender* is a dummy variable that equals one when the controlling shareholder is male, and zero otherwise. *Political Connection* is a dummy variable that equals one if the controller is a member of a government department above provincial level, a deputy in the people's congress above the provincial level, or a member of the Chinese People's Political Consultative Conference (CPPCC) above the provincial level, and zero otherwise. *Finance* is a dummy variable that equals one if the controlling shareholder has a financial background, and zero otherwise. *Foreign* is a dummy variable that equals one if the controlling shareholder has overseas work or study experience, and zero otherwise. After controlling for the potential confounding effects resulting from these personal characteristics, the negative relationship between *Overseas* and *Trade Credit Received* still holds across all model specifications.

<Insert Table 6 about here>

4.3.3 Placebo test

We also implement placebo tests to rule out the possibility that our results are purely driven by chance. In particular, following [Gao and Zhang\(2019\)](#), we randomly select a group of firms as pseudo-treated firms, assuming they have controlling shareholders with overseas residency rights, and leave the remaining firms as pseudo-control firms. We repeat this procedure 10,000 times. For each iteration, we draw a random sample of 1,409 observations (the number of observations in which the controlling shareholders actually have overseas residency rights) as “pseudo-treated” from our full sample pool, and then treat the rest of the pool as “pseudo-control”. Based on these “pseudo-treated” and “pseudo-control” samples, we re-estimate the baseline regression results from column (2) in Table 3 and obtain the coefficients on *Overseas*. Figure 1 shows a histogram distribution of the coefficients on *Overseas* from 10,000 bootstrap simulations of the model in column (2) of Table 3, when the dependent variable is *Trade Credit Received*.

The results indicate that the association between freedom of movement and trade credit received found in our main tests is unlikely to be spurious: the minimum magnitude of coefficient estimated in the placebo test (-0.008) is substantially bigger than the magnitude of the actual coefficient estimated from the main test (-0.0117).

<Insert Figure 1 about here>

To summarize, while endogeneity is a perennial issue that no empirical test can entirely rule out, we conduct a battery of tests to alleviate the endogeneity concerns and find that our main conclusion holds. Although each test could be subject to criticism, the balance of evidence points to a causal relation running from freedom of movement to firms' use of trade credit.

5. Potential Mechanisms

The above results imply a negative and causal relation between freedom of movement and trade credit. In this section, we conduct a number of tests to probe the channels through which controlling shareholders' mobility may reduce firms' use of trade credit.

There is a growing strand of literature emphasizing the importance of trust in trade credit provision, as an informal financing channel. As [Guiso, Sapienza and Zingales\(2004\)](#) point out, whether trade credit is extended depends not only on the legal enforceability of the contract, but also on the extent to which the suppliers trust their customers. Moreover, [Wu, Firth and Rui\(2014\)](#) argue that, in China, social trust may be more effective in explaining firms' granting and receiving of trade credit when courts are less effective. Actually several decades ago, [Arrow\(1969\)](#) was already arguing that “virtually every commercial transaction has within itself an element of trust” (p.357).

In the (implicit) contract for trade credit, the financiers (suppliers) take on the risk that the financed (customers) will not pay in the future as in most cases, there is no collateral standing behind the transaction, and no guarantees from third parties or financial intermediaries. Thus, trust plays an important role in trade credit. From the perspective of trade creditors, they are more likely be concerned that their informal credit to firms may not be honoured, given the probability of a breach of (implicit) contracts is higher for firms with a higher likelihood of *fleeing entrepreneurs*.

In order to verify that the trust channel plays an important role in shaping the negative relation, we first apply a DID design by utilizing a policy shock in 2012, after which there is an unexpected decline in the level of trust for firms with overseas controlling shareholders. The DID approach helps establish the trust mechanism directly as tests are conducted surrounding policy changes that cause exogenous variation in the change in trust. Later, we examine whether the effect of freedom of movement on trade credit is pronounced for firms which are perceived as less trustworthy *ex ante*, by looking at both regional-level measures (“Runaway” and “Fintech Lending” indexes) and firm-level indirect measures (expropriation risk and mobility of assets).

5.1 Difference-in-Differences Analysis Using 2012 Political Shock

The anti-corruption campaign launched after the 18th National Congress of the Communist Party of China in November 2012, as an exogenous policy shock, has dramatically increased the political uncertainty not only for politicians but also for entrepreneurs (Liu, Shu and Wei, 2017). The surge of political risk has significantly increased the likelihood of flightism among entrepreneurs with overseas residency permits. Thus, firms with such controlling shareholders experience an unexpected decline in the general level of trust. We take the 2012 political event as a policy shock and apply the DID methodology.

Table 7 presents the DID estimation results. *Treated* is a dummy variable that equals one if a firm has any controlling shareholder with overseas residency rights by 2012, and zero if a firm does not have any controlling shareholder with overseas residency rights over the sample period. It is worth noting that, we only keep firms without changes in the controlling shareholders' residency status after 2012 in the treatment group. *Post* is a dummy variable that equals one if the observation year is after 2012, and zero otherwise. Columns (1) and (2) present the DID estimation results for non-balanced panel and balanced panel samples, respectively. Our key explanatory variable is the interaction term between *Treated* and *Post*. In both samples, it enters negatively, suggesting that, on average, the decline in trust resulting from controlling shareholders' flightism reduces firms' use of trade credit. Overall, the DID results provide direct and powerful evidence to the underlying mechanism that how freedom of movement affects trade credit.

<Insert Table 7 about here>

We are aware that the precondition for our experiment, i.e., the DID research design, to be valid is that firms with and without controlling shareholders with overseas residency status should exhibit parallel trends before the treatment. As such, we need to exclude the possibility of the reverse causality that the negative effect of freedom of movement on the use of trade credit prevailed before the 18th National Congress. To perform the parallel trend test, we only keep those observations from four years before to four years after 2012. *Yearⁿ* is a dummy variable indicating whether a firm-year observation is four years before the treatment year (-4), three, two, or one years before (-3, -2, and -1, respectively), in the year of the treatment (0, i.e. 2012), or one, two, three, or four years after the treatment year (1, 2, 3, and 4, respectively). Columns (3) and (4) present the parallel trend test results for the non-balanced and balanced panel samples, respectively, and the results reveal parallel trends for the treatment and control groups before the policy shock.

5.2 Social Trust

To provide more evidence on the underlying trust mechanism, we next examine how regional difference in social trust can shape the relationship between freedom of movement and trade credit financing. A main challenge is the empirical identification of social trust. Inspired by [Fukuyama\(1995\)](#), p.27) and [Putnam\(2000\)](#), p.19), who define social trust as the expectations within a community that people will behave in honest and cooperative ways, and the extent to which human interactions are governed by the norms of reciprocity and trustworthiness, we construct two regional level indexes, i.e., “Runaway” and “Fintech Lending”, to proxy for social trust . Specifically, “Runaway” index captures the probability of flightism at the regional level, which is calculated using the volumes of the keyword search for “Paolu” in *Baidu.com*, the biggest search engine in China, by netizens in different regions of China. A higher “Runaway” index indicates the lower level of social trust. “Fintech Lending” index is defined as the regional loan success rate of each province in *RenRenDai* platform, which is one of the largest P2P lending platforms in mainland China. A higher “Fintech Lending” index indicates higher level of social trust.

Table 8 presents the regression results regarding how social trust at a regional level affects the association between controlling shareholders’ freedom of movement and trade credit received. In columns (1) and (2), the full sample is divided based on the median of the “Runaway” index across different regions. The coefficient on *Overseas* is negatively significant in column (1), suggesting that the concern about controlling shareholders’ flightism is more severe when the regional “Runaway” index is high. In columns (3) and (4), the full sample is divided based on the median of the “Fintech Lending” index. We only document a negative relationship between *Overseas* and *Trade Credit Received* when the regional trust indexes indicate a lower level of trust (column (4)). Together, the results associated with social trust provide evidence of a trust mechanism influencing how creditors take controlling shareholders’ mobility into account when extending trade credit to firms.

<Insert Table 8 about here>

5.3 Expropriation risk

Ever since the divergence between control rights and cash flow rights of controlling shareholders was identified by [La Porta, Lopez-De-Silanes and Shleifer\(1999\)](#), their ability to expropriate other stakeholders has been widely studied ([Claessens, Djankov and Lang, 2000](#); [Claessens, Djankov, Fan and Lang, 2002](#); [Faccio and Lang, 2002](#); [Lemmon and Lins, 2003](#); [Gompers, Ishii and Metrick, 2010](#); [Lin, Ma and Xuan, 2011](#); [Lin, Ma, Malatesta and Xuan,](#)

2011, 2012). Most studies argue that the controlling shareholders are strongly motivated to pursue their private benefits by transferring or tunnelling resources out of the firms, because they will obtain all the benefits without bearing the full financial consequences (Lin, Ma, Malatesta and Xuan, 2012).

Regarding the potential for the controlling shareholders' flightism, firms with overseas controlling shareholders are perceived as less trustworthy by creditors when expropriation is less costly, for example, in the presence of a higher agency cost arising from the separation of cash flow and control rights. It would, therefore, be reasonable to find that firms with high expropriation risk experience larger decreases in trade credit when their controlling shareholders have more freedom of movement.

Following the above studies, we measure firms' expropriation risk by three proxies: the cash flow rights of the controlling shareholder, the duality of the controlling shareholder and the chairman/CEO, and the separation of cash flow rights and control rights. Firms whose controlling shareholders have lower cash flow rights, those with duality of the controlling shareholder and the chairman/CEO, and those with a higher separation of cash flow and control rights are subject to higher expropriation risk.

Table 9 presents the regression results showing how expropriation risk affects the association between the controlling shareholders' freedom of movement and trade credit received. In columns (1) and (2), we divide the sample by whether or not the cash flow rights of the controlling shareholder exceed 50%. In columns (3) and (4), we divided the sample by whether the controlling shareholder also serves as chairman or CEO. In columns (5) and (6), we divide the sample by whether the separation of the cash flow and control rights of the controlling shareholder is above or below the median value in the sample. We find the negative relationship between *Overseas* and *Trade Credit Received* is statistically significant in firms where the cash flow rights of the controlling shareholder are less than 50% (column (2)), the controlling shareholder also serves as chairman or CEO (column (3)), and the separation of cash flow and control rights is above the sample median (column (5)).

These results support our conjecture that the effect of freedom of movement on trade credit should be pronounced for firms perceived as less trustworthy due to their propensity for expropriation.

<Insert Table 9 about here>

5.4 Mobility of Assets

We also consider whether firms' mobility of assets can moderate the relationship between freedom of movement and trade credit. Firms with a higher value of fixed assets are considered as more trustworthy, as creditors can reasonably claim back their losses by selling the fixed assets once they default.

Table 10 presents the regression results showing how mobility of assets affects the association between the controlling shareholders' freedom of movement and trade credit received. The mobility of assets is measured by *Capital Intensity*, defined as the total of fixed assets and construction-in-progress, divided by sales as of the fiscal year end. The full sample is divided into two subsamples based on the year-industry median capital intensity. Consistent with our argument that firms with higher mobility of assets are less trustworthy, we document a negative relationship between *Overseas* and *Trade Credit Received* in the group with low capital intensity.

This further confirms our conjecture that controlling shareholders' flightism is only a concern when firms' assets are highly mobilized.

<Insert Table 10 about here>

5.5 Other Possible Mechanisms and Robustness Checks

5.5.1 Overseas Business

There is an alternative hypothesis that controlling shareholders obtain overseas residency rights so as to expand into overseas markets, but the risk of overseas business is relatively difficult for trade creditors to evaluate, resulting in reduced provision of trade credit. To support this argument, we should document a significantly positive relationship between controlling shareholders' residency status and firms' export performance. Our further empirical analysis on firms' export activities, however, suggests that there is no such a relationship, which helps rule out this concern.

Table 11 presents the regression results regarding how firms' overseas business affects the association between their controlling shareholders' freedom of movement and the trade credit they receive. In column (1), the dependent variable is *Export_Total*¹⁷, measured as a firm's export revenue divided by its total revenue as of the fiscal year end. As *Export_Total* is the aggregated value of a firm's overall overseas income across all regions/countries, regardless of the business connections, we also introduce another measure to capture any specific relationships or connections between the controlling shareholders and the overseas

¹⁷ These data are obtained from the notes to financial statements in the annual reports.

regions/countries in which they hold residency permits. In column (2), the dependent variable is *Export_Pair*¹⁸, measured as the value of a firm's exports to the region/country in which the controlling shareholders have residency permits, divided by the total revenue as of the fiscal year end. The independent variable is *Overseas* across all model specifications. Based on the results in columns (1) and (2), we fail to find any significant relationship between controlling shareholders' overseas residency status and firms' export performance. Therefore, the potential concern that controlling shareholders obtain overseas residency rights so as to expand into overseas markets is ruled out.

<Insert Table 11 about here>

5.5.2 Other Robustness Checks

5.5.2.1 Alternative Measures

As a robustness check, in addition to the trade credit received, we also examine whether controlling shareholders' residency status can affect firms' provision of trade credit and the trade credit balance. We measure *Trade Credit Provided* by the total of notes receivable, accounts receivable, and prepayments, divided by total assets as of the fiscal year end, and *Net Trade Credit* as *Trade Credit Provided* minus *Trade Credit Received*. Nonetheless, we find no evidence consistent with either of those relationships. The heterogeneous effects of *Overseas* on *Trade Credit Received* and *Trade Credit Provided* further support our conjecture that *fleeing entrepreneurs* are more likely to be a concern for suppliers than customers. Considering a longer horizon of the effect, we also use *Trade Credit Received_{t+1}* as the dependent variable and the result suggests that the negative impact of controlling shareholders' mobility on trade credit received is long-lasting.

Further, as the "less trustworthy" concern can be more pressing for trade creditors in the case that multiple controlling shareholders in the same firm have a higher propensity to run away, as a robustness check, we alternatively define the variable *Overseas_Ratio* as the number of controlling shareholders with residency rights outside mainland China as a percentage of the total number of controlling shareholders.¹⁹ The positively significant coefficient on *Overseas_Ratio* support our baseline results. This set of robustness results are presented in Appendix II.

¹⁸ These original data are obtained from the General Administration of Customs. We manually match them with firm level export activities.

¹⁹ According to Case 3 in Section 2.2, a firm can have more than one natural person as a controlling shareholder.

5.5.2.2 Quantile Regressions

To alleviate the concern that the relationship only holds in firms whose use of trade credit is in the highest or lowest quantile, we also evaluate whether the amount of existing trade credit matters in explaining the relationship. Appendix III presents the quantile regression results for the impact of controlling shareholders' freedom of movement on trade credit received. In columns (1) to (5), we present the quantile regression results for q20, q40, q50, q60, and q80 of the dependent variable, respectively. The economic significance of the coefficients increases with the level of existing trade credit (-0.0045, -0.0073, -0.0082, -0.0116, and -0.0147, respectively) and almost all coefficients are negatively significant at the 5% level. The quantile regression results suggest that the negative relationship between controlling shareholders' freedom of movement and trade credit is more pronounced if firms have a high existing trade credit level.

5.5.2.3 Propensity score matching method

Many other factors can determine a firm's likelihood of have a controlling shareholder with an overseas residence permit. To the extent that these factors are also correlated with firms' use of trade credit, our estimated effect of freedom of movement on trade credit is subject to selection bias. To mitigate this concern, we match each treated firm (with overseas controlling shareholders) with a control firm (without overseas controlling shareholders) and use both treated and control firms in the matched sample to rerun the regressions.

We respectively use nearest-neighbor matching, radius matching, and kernel matching to match the observations with residency rights outside of mainland China to observations without residency rights outside of mainland China ([Lawrence, Minutti-Meza and Zhang, 2011](#); [Shipman, Swanquist and Whited, 2017](#)). To obtain the propensity scores, we first estimate the likelihood of a firm having overseas controlling shareholders, by applying the logistic model with all control variables as independent variables. We then match each treatment observation with the control observation that has the closest score in the nearest-neighbor matching, by imposing a radius caliper of 0.0001 in the radius matching, and by constructing a weighted index based on the distance between each treatment and control observation in the kernel matching.

We repeat the main regression using the propensity-score-matched samples. Appendix IV reports the results. Across the different matching criteria, as predicted, our main findings are consistent with the main results regarding the negative relationship between freedom of movement and trade credit.

6. Conclusion

Our study shows that controlling shareholders' freedom of movement can be a concern for creditors when extending trade credit. Utilizing Chinese controlling shareholders' overseas residency status as a proxy for freedom of movement, we show that their mobility affects firms' use of trade credit negatively, yet the negative association is mitigated if the overseas jurisdiction in question has signed an extradition agreement with China. By exploiting the firm-level dynamic changes in controlling shareholders' overseas residency status, we apply the staggered DID approach to establish the causality. The *fleeing entrepreneurs* concern for trade creditors is especially detrimental to firms that are perceived as less trustworthy, that is those located in regions with a lower level of social trust and with higher expropriation risk and mobility of assets.

Given trade credit's important role in informal financing, particularly in developing countries, and the growing emigration trend of entrepreneurs, it should be a concern to academics, government regulators, investors, other stakeholders that the significant influence of controlling shareholders' overseas citizenship on firms' ability to obtain trade credit indicates that freedom of entrepreneurs also exerts implicit costs to firms. Overall, our results, through the lens of trade credit, shed light on the hidden costs, arising from the conflicts between controlling shareholders' mobility rights and control rights, on corporate financing activities.

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Table 1
Sample Distribution

This table describes the distribution of firm-year observations from 2004 to 2017. Panel A reports the sample distribution by year. Panel B reports the sample distribution by industry. Panel C reports the sample distribution by country/region in which controlling shareholders obtain overseas residency rights. *Overseas N* indicates the number of firm-year observations with controlling shareholders who obtain overseas residency rights. *Overseas %* indicates the percentage of firm-year observations with controlling shareholders who obtain overseas residency rights across the overall sample.

Panel A: Distribution by Year			
<i>Year</i>	<i>Year N</i>	<i>Overseas N</i>	<i>Overseas%</i>
2004	141	9	6.38%
2005	277	21	7.58%
2006	307	25	8.14%
2007	378	33	8.73%
2008	464	47	10.13%
2009	503	50	9.94%
2010	636	67	10.53%
2011	944	105	11.12%
2012	1,190	142	11.93%
2013	1,297	152	11.72%
2014	1,337	155	11.59%
2015	1,428	166	11.62%
2016	1,590	191	12.01%
2017	1,825	246	13.48%
<i>Total</i>	12,317	1,409	11.44%

Panel B: Distribution by Industry			
<i>Industries</i>	<i>Industry N</i>	<i>Overseas N</i>	<i>Overseas%</i>
<i>Agriculture</i>	216	7	3.24%
<i>Mining</i>	175	8	4.57%
<i>Manufacturing</i>	8,684	936	10.77%
<i>Electricity, gas and water production and supply</i>	82	10	12.20%
<i>Construction</i>	300	20	6.67%
<i>Retail and wholesale</i>	594	94	15.82%
<i>Transportation</i>	90	5	5.56%
<i>Accommodation and catering</i>	33	0	0.00%
<i>Information technology</i>	920	90	9.78%
<i>Real estate</i>	600	160	26.67%
<i>Leasing and business services</i>	97	5	5.15%
<i>Scientific research and technology services</i>	92	4	4.35%
<i>Public facilities management</i>	86	16	18.60%
<i>Residential services, repairs and other services</i>	13	0	0.00%
<i>Education</i>	2	2	100.00%
<i>Health and social work</i>	25	0	0.00%
<i>Entertainment</i>	78	10	12.82%
<i>Other</i>	230	42	18.26%
<i>Total</i>	12,317	1,409	11.44%

Panel C: Distribution by Overseas Country/Region	
<i>Countries/Regions</i>	<i>Overseas N</i>
<i>Hong Kong</i>	388
<i>Canada</i>	214
<i>United States</i>	173
<i>Australia</i>	142
<i>Singapore</i>	91
<i>Taiwan</i>	59
<i>New Zealand</i>	49
<i>Belize</i>	25
<i>The Philippines</i>	25
<i>Macao</i>	24

<i>Guinea-Bissau</i>	13
<i>Germany</i>	12
<i>Gambia</i>	11
<i>Britain</i>	9
<i>Argentina</i>	5
<i>France</i>	5
<i>Italy</i>	5
<i>Cyprus</i>	4
<i>Japan</i>	2
<i>South Korea</i>	1
<i>Niger</i>	1
<i>Unknown</i>	151
<i>Total</i>	1,409

Table 2
Descriptive Statistics

This table reports the descriptive statistics. Panel A provides the summary statistics for the variables used in the empirical analysis. Panel B shows Pearson correlations among main variables. Correlations with statistical significance at 5% or above are highlighted **BOLD**. Definitions of variables are presented in Appendix I.

Panel A: Summary Statistics															
<i>Variables</i>	<i>N</i>	<i>Mean</i>	<i>Std.</i>	<i>Min</i>	<i>P25</i>	<i>P50</i>	<i>P75</i>	<i>Max.</i>							
<i>Trade Credit Received</i>	12,317	0.148	0.108	0.005	0.065	0.122	0.202	0.502							
<i>Overseas</i>	12,317	0.114	0.318	0.000	0.000	0.000	0.000	1.000							
<i>Overseas_Extradition_Yes</i>	12,166	0.015	0.120	0.000	0.000	0.000	0.000	1.000							
<i>Overseas_Extradition_No</i>	12,166	0.099	0.285	0.000	0.000	0.000	0.000	1.000							
<i>LEV</i>	12,317	0.162	0.150	0.000	0.017	0.133	0.267	0.584							
<i>ROA</i>	12,317	0.046	0.056	-0.178	0.018	0.044	0.073	0.214							
<i>PPE</i>	12,317	0.239	0.160	0.002	0.114	0.215	0.340	0.674							
<i>Age</i>	12,317	2.695	0.340	1.792	2.485	2.708	2.944	3.434							
<i>CFFO</i>	12,317	0.066	0.234	-1.217	-0.004	0.074	0.161	0.773							
<i>Size</i>	12,317	21.361	1.031	19.063	20.643	21.267	22.001	24.401							
<i>Liquidity</i>	12,317	0.282	0.270	-0.411	0.096	0.277	0.475	0.850							
<i>ST</i>	12,317	0.038	0.192	0.000	0.000	0.000	0.000	1.000							
<i>SEO</i>	12,317	0.244	0.429	0.000	0.000	0.000	0.000	1.000							
<i>Board Size</i>	12,317	2.112	0.189	1.609	1.946	2.197	2.197	2.565							
<i>Independent</i>	12,317	0.373	0.052	0.300	0.333	0.333	0.429	0.571							
<i>Top1</i>	12,317	33.266	14.159	8.520	22.500	30.650	42.420	71.780							
<i>Pay</i>	12,317	13.882	0.773	11.861	13.406	13.911	14.387	15.802							
<i>CEO Duality</i>	12,317	0.334	0.472	0.000	0.000	0.000	1.000	1.000							
Panel B: Correlation Matrix															
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
<i>Trade Credit Received</i>	(1)														
<i>Overseas</i>	(2)	-0.01													
<i>LEV</i>	(3)	0.04	-0.05												
<i>ROA</i>	(4)	-0.10	0.03	-0.34											
<i>PPE</i>	(5)	-0.14	-0.06	0.29	-0.14										
<i>Age</i>	(6)	0.02	0.05	0.06	-0.11	-0.06									
<i>CFFO</i>	(7)	-0.06	-0.00	-0.13	0.21	0.15	-0.04								
<i>Size</i>	(8)	0.23	-0.01	0.32	0.01	-0.01	0.22	-0.02							

<i>Liquidity</i>	(9)	-0.20	0.03	-0.60	0.35	-0.54	-0.14	-0.02	-0.20							
<i>ST</i>	(10)	-0.02	0.02	0.05	-0.08	0.04	0.05	-0.04	-0.22	-0.22						
<i>SEO</i>	(11)	0.03	-0.02	0.09	-0.02	-0.02	0.19	-0.02	0.41	-0.10	-0.07					
<i>Board Size</i>	(12)	0.05	-0.01	0.09	0.02	0.10	-0.05	0.01	0.12	-0.09	-0.02	0.01				
<i>Independent</i>	(13)	-0.04	0.01	-0.05	-0.00	-0.04	0.05	-0.00	-0.03	0.04	0.01	-0.01	-0.57			
<i>Top1</i>	(14)	0.05	0.01	0.00	0.18	-0.01	-0.15	0.01	0.10	0.10	-0.10	-0.07	-0.07	0.04		
<i>Pay</i>	(15)	0.10	0.11	-0.09	0.21	-0.13	0.22	0.04	0.49	0.11	-0.22	0.20	0.04	0.03	0.05	
<i>CEO Duality</i>	(16)	-0.04	-0.02	-0.12	0.06	-0.03	-0.02	0.01	-0.07	0.13	-0.03	-0.03	-0.12	0.11	0.06	0.10

Table 3
OLS Specifications

This table presents the baseline regression results of the impact of controlling shareholders' freedom of movement on trade credit. The dependent variable is *Trade Credit Received*, measured as total of notes payable, accounts payable and unearned revenue divided by total assets as of the fiscal year end. In columns (1) and (2), the independent variable is *Overseas*, a dummy variable that equals one if any of a firm's controlling shareholders in the current year has residency rights outside mainland China, and zero otherwise. In columns (3), the independent variables are *Overseas_Extradition_Yes* and *Overseas_Extradition_No*, the former is defined as a dummy variable that equals one when any of a firm's controlling shareholders in the current year has residency rights in countries/regions that have signed extradition agreements with mainland China, and zero otherwise, while the latter is defined as a dummy variable that equals one when any of a firm's controlling shareholders in the current year has residency rights in countries/regions without extradition agreements with mainland China, and zero otherwise. Definitions of other variables are presented in Appendix I. All control variables are lagged for one year. All continuous variables are winsorized at the 1st and 99th percentiles. Standard errors are robust to heteroskedasticity and clustered at the industry level with t-statistics reported in parentheses. *, **, and *** indicate significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

	(1)	(2)	(3)
	<i>DV=Trade Credit Received</i>		
<i>Overseas</i>	-0.0089** (-2.35)	-0.0117*** (-3.27)	
<i>Overseas_Extradition_Yes</i>			0.0018 (0.18)
<i>Overseas_Extradition_No</i>			-0.0136*** (-3.72)
<i>LEV</i>	-0.1859*** (-4.49)	-0.2152*** (-5.72)	-0.2151*** (-5.75)
<i>ROA</i>	-0.1613*** (-3.73)	-0.1417*** (-3.56)	-0.1410*** (-3.53)
<i>PPE</i>	-0.2384*** (-8.84)	-0.2045*** (-8.11)	-0.2046*** (-8.10)
<i>Age</i>	-0.0280*** (-3.21)	-0.0107 (-1.44)	-0.0108 (-1.46)
<i>CFFO</i>	-0.0181 (-1.41)	-0.0068 (-0.60)	-0.0069 (-0.61)
<i>Size</i>	0.0244** (3.84)	0.0233*** (4.22)	0.0233*** (4.19)
<i>Liquidity</i>	-0.2018*** (-6.64)	-0.1959*** (-6.35)	-0.1961*** (-6.37)
<i>ST</i>	-0.0259 (-1.66)	-0.0226* (-1.73)	-0.0226* (-1.75)
<i>SEO</i>	-0.0231*** (-4.62)	-0.0157*** (-4.33)	-0.0155*** (-4.28)
<i>Board Size</i>	0.0157** (2.50)	0.0014 (0.19)	0.0013 (0.19)
<i>Independent</i>	-0.0474 (-1.60)	-0.0310 (-1.26)	-0.0311 (-1.28)
<i>Top1</i>	0.0006*** (3.34)	0.0004** (2.54)	0.0004** (2.50)
<i>Pay</i>	0.0030 (0.96)	0.0102*** (2.98)	0.0102*** (2.98)
<i>CEO Duality</i>	-0.0009 (-0.27)	0.0027 (0.82)	0.0026 (0.79)
Constant	-0.2131* (-1.86)	-0.3475** (-2.81)	-0.3454** (-2.78)
Year FE	No	Yes	Yes
Industry FE	No	Yes	Yes
Region FE	No	Yes	Yes
N	12,317	12,317	12,317
Adj.R ²	0.21	0.32	0.32

Table 4
PSM-DID Analysis Using Staggered Firm-level Changes
in Controlling Shareholders' Overseas Residency Status

This table presents the staggered PSM-DID estimation results using firm-level changes in controlling shareholders' overseas residency status. Panel A summarizes the dynamic changes of controlling shareholders' overseas residency status. Firms are grouped based on how controlling shareholders' residency status varies over the sample period. Panel B reports the PSM-DID analysis for trade credit dynamics. In column (1), the treatment group is Group 3 in which the number of controlling shareholders with overseas residency permits changes from zero to non-zero between 2004 and 2017, and the control group is Group 1 in which none of the controlling shareholders have ever obtained the overseas residency permits. In column (2), the treatment group is Group 4 in which the number of controlling shareholders with overseas residency permits changes from non-zero to zero between 2004 and 2017, and the control group is Group 2 in which there are controlling shareholders with overseas residency permits persistently. *Treated* is a dummy variable that equals one if a firm is in the treatment group, and zero otherwise. *Post* is a dummy variable that equals one if the observation year is after the firm-level staggered change, and zero otherwise. The dependent variable is *Trade Credit Received*, measured as total of notes payable, accounts payable and unearned revenue divided by total assets as of the fiscal year end. Definitions of other variables are presented in Appendix I. All control variables are lagged for one year. All continuous variables are winsorized at the 1st and 99th percentiles. Standard errors are robust to heteroskedasticity and clustered at the industry level with t-statistics reported in parentheses. *, **, and *** indicate significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

Panel A: Staggered Changes of Controlling Shareholders' Overseas Residency Status			
<i>The number of controlling shareholders with overseas residency permits in a firm from 2004 to 2017</i>	<i>Firm N</i>	<i>Year N</i>	<i>Overseas N</i>
<i>Group 1: Zero</i>	1,652	10,239	0
<i>Group 2: Non-zero</i>	181	761	761
<i>Group 3: From Zero to Non-zero</i>	80	743	356
<i>Group 4: From Non-zero to Zero</i>	47	341	184
<i>Group 5: Other</i>	24	233	108
<i>Total</i>	1,984	12,317	1,409

Panel B: PSM-DID Analysis for Trade Credit Dynamics		
	(1)	(2)
	<i>Treatment: Group 3</i> <i>Control: Group 1</i>	<i>Treatment: Group 4</i> <i>Control: Group 2</i>
	<i>DV=Trade Credit Received</i>	
<i>Treated*Post</i>	-0.0221** (-2.18)	0.0377*** (3.63)
<i>Post</i>	-0.0013 (-0.18)	-0.0100 (-0.99)
<i>LEV</i>	-0.0543* (-1.76)	-0.1070*** (-3.18)
<i>ROA</i>	-0.0111 (-0.21)	-0.0788 (-1.28)
<i>PPE</i>	-0.0631** (-1.97)	-0.0318 (-0.92)
<i>Age</i>	-0.0055 (-0.14)	0.0648 (1.56)
<i>CFFO</i>	-0.0005 (-0.05)	0.0037 (0.40)
<i>Size</i>	0.0192*** (3.30)	-0.0111 (-1.60)
<i>Liquidity</i>	-0.0513*** (-2.92)	-0.0690*** (-3.25)
<i>ST</i>	0.0361*** (2.72)	-0.0187 (-1.06)
<i>SEO</i>	-0.0198*** (-3.27)	0.0029 (0.32)
<i>Board Size</i>	-0.0022	0.0217

		(-0.10)	(0.66)
<i>Independent</i>		-0.1668**	0.0687
		(-2.51)	(0.69)
<i>Top1</i>		-0.0005	-0.0004
		(-1.61)	(-0.78)
<i>Pay</i>		-0.0028	0.0049
		(-0.43)	(0.63)
<i>CEO Duality</i>		-0.0046	-0.0071
		(-0.72)	(-0.92)
Constant		-0.1164	0.0932
		(-0.70)	(0.45)
Year FE		Yes	Yes
Industry FE		Yes	Yes
Region FE		Yes	Yes
Firm FE		Yes	Yes
N		1,090	603
Within R ²		0.23	0.24

Table 5

Instrument Variable Estimation: the Christian Occupation of China between Late Qing Dynasty and Early Republic of China

This table presents the 2SLS instrument variable estimation results. In the 1st stage, the dependent variable is *Overseas*, a dummy variable that equals one if any of a firm's controlling shareholders in the current year has residency rights outside mainland China, and zero otherwise. In the 2nd stage, the dependent variable is *Trade Credit Received*, measured as total of notes payable, accounts payable and unearned revenue divided by total assets as of the fiscal year end. The first instrument variable *Proportion of Christians* is measured by the natural logarithm of one plus the number of Christians divided by the estimate population between 1901 and 1920 multiplied by 10,000, at the province level. The second instrument variable *Proportion of Pupils Registered in Christian Schools* is measured by the natural logarithm of one plus the number of pupils registered in Christian schools divided by the estimate population between 1901 and 1920 multiplied by 10,000, at the province level. The third instrument variable *Leased Territory* is measured by a dummy that equals one if any region in a province has been a leased territory historically, and zero otherwise. Definitions of other variables are presented in Appendix I. All control variables are lagged for one year. All continuous variables are winsorized at the 1st and 99th percentiles. Standard errors are robust to heteroskedasticity and clustered at the industry level with t-statistics reported in parentheses. *, **, and *** indicate significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

Variables	<i>Overseas</i>	<i>Trade Credit Received</i>	<i>Overseas</i>	<i>Trade Credit Received</i>	<i>Overseas</i>	<i>Trade Credit Received</i>
	<i>First</i>	<i>Second</i>	<i>First</i>	<i>Second</i>	<i>First</i>	<i>Second</i>
	(1)	(2)	(3)	(4)	(5)	(6)
	<i>IV1 = Proportion of Christians</i>		<i>IV2 = Proportion of Pupils Registered in Christian Schools</i>		<i>IV3 = Leased Territory</i>	
<i>IV1</i>	0.0301*** (9.85)					
<i>IV2</i>			0.0369*** (10.38)			
<i>IV3</i>					0.0450*** (6.76)	
<i>Overseas</i>		-0.0722** (-2.42)		-0.0996*** (-3.44)		-0.1096** (-2.45)
<i>LEV</i>	-0.0784*** (-2.86)	-0.2240*** (-26.65)	-0.0770*** (-2.81)	-0.2263*** (-26.41)	-0.0664** (-2.47)	-0.2048*** (-23.57)
<i>ROA</i>	0.0870 (1.42)	-0.1379*** (-7.59)	0.0888 (1.45)	-0.1354*** (-7.29)	0.0577 (0.97)	-0.1096*** (-6.04)
<i>PPE</i>	-0.0496** (-1.97)	-0.1997*** (-26.18)	-0.0473* (-1.88)	-0.2015*** (-25.91)	-0.0554** (-2.23)	-0.2027*** (-25.17)
<i>Age</i>	-0.0017 (-0.17)	-0.0142*** (-4.81)	-0.0014 (-0.13)	-0.0141*** (-4.66)	-0.0022 (-0.23)	-0.0156*** (-5.21)
<i>CFFO</i>	0.0070 (0.53)	-0.0075* (-1.91)	0.0077 (0.58)	-0.0074* (-1.84)	0.0106 (0.83)	-0.0033 (-0.84)
<i>Size</i>	-0.0299*** (-7.35)	0.0220*** (14.39)	-0.0296*** (-7.28)	0.0211*** (13.76)	-0.0309*** (-7.75)	0.0195*** (10.37)
<i>Liquidity</i>	-0.0591*** (-3.41)	-0.2020*** (-37.94)	-0.0588*** (-3.40)	-0.2035*** (-37.50)	-0.0524*** (-3.09)	-0.1955*** (-35.02)
<i>ST</i>	0.0292* (1.72)	-0.0227*** (-4.52)	0.0283* (1.67)	-0.0221*** (-4.29)	0.0332** (2.07)	-0.0208*** (-4.14)
<i>SEO</i>	-0.0124 (-1.62)	-0.0172*** (-7.54)	-0.0127* (-1.67)	-0.0176*** (-7.57)	-0.0115 (-1.54)	-0.0150*** (-6.48)
<i>Board Size</i>	0.0141 (0.73)	0.0057 (1.01)	0.0164 (0.85)	0.0059 (1.01)	-0.0040 (-0.22)	0.0023 (0.40)
<i>Independent</i>	-0.0236 (-0.35)	-0.0256 (-1.29)	-0.0151 (-0.22)	-0.0259 (-1.27)	-0.0070 (-0.11)	-0.0403** (-2.02)
<i>Top1</i>	-0.0000 (-0.00)	0.0004*** (6.44)	0.0000 (0.05)	0.0004*** (6.29)	0.0001 (0.26)	0.0004*** (6.27)
<i>Pay</i>	0.0588*** (11.76)	0.0130*** (5.25)	0.0586*** (11.75)	0.0148*** (6.06)	0.0653*** (13.38)	0.0173*** (5.08)

<i>CEO Duality</i>	-0.0221*** (-3.50)	0.0012 (0.61)	-0.0217*** (-3.45)	0.0006 (0.32)	-0.0202*** (-3.26)	0.0002 (0.09)
Constant	-0.1891* (-1.84)	-0.3490*** (-11.42)	-0.1887* (-1.83)	-0.3535*** (-11.31)	-0.1589 (-1.59)	-0.3363*** (-10.85)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Region FE	No	No	No	No	No	No
N	11,875	11,875	11,875	11,875	12,317	12,317
Cragg-Donald						
Wald F-statistic	97.031		107.680		43.764	

Table 6
Controlling other Personal Characteristics of Controlling shareholders

This table presents the regression results after controlling other characteristics of controlling shareholders. The dependent variable is *Trade Credit Received*, measured as total of notes payable, accounts payable and unearned revenue divided by total assets as of the fiscal year end. The independent variable is *Overseas*, a dummy variable that equals one if any of a firm's controlling shareholders in the current year has residency rights outside mainland China, and zero otherwise. In columns (1) to (5), we separately add one characteristic of controlling shareholders, and add all personal characteristics of controlling shareholders in column (6). *Controller Age* is measured by the controlling shareholders' age. *Gender* is a dummy variable that equals one when the controlling shareholder is male, and zero otherwise. *Political Connection* is a dummy variable that equals one if the controller is a member of government departments above provincial level or a deputy to the people's congress above the provincial level or a member of the CPPCC above the provincial level, and zero otherwise. *Finance* is a dummy variable that equals one if the controlling shareholder has a financial background, and zero otherwise. *Foreign* is a dummy variable that equals one if the controlling shareholder has overseas working experience or overseas study experience, and zero otherwise. Definitions of other variables are presented in Appendix I. All control variables are lagged for one year. All continuous variables are winsorized at the 1st and 99th percentiles. Standard errors are robust to heteroskedasticity and clustered at the industry level with t-statistics reported in parentheses. *, **, and *** indicate significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	<i>DV=Trade Credit Received</i>					
<i>Overseas</i>	-0.0117*** (-3.46)	-0.0117*** (-3.69)	-0.0116*** (-3.32)	-0.0115*** (-3.27)	-0.0106** (-2.73)	-0.0101** (-2.74)
<i>Controller Age</i>	-0.0153 (-0.91)					-0.0241 (-1.25)
<i>Gender</i>		0.0069 (1.08)				0.0072 (1.11)
<i>Political Connection</i>			-0.0021 (-0.45)			-0.0013 (-0.30)
<i>Finance</i>				-0.0062 (-1.24)		-0.0059 (-1.11)
<i>Foreign</i>					-0.0066 (-0.88)	-0.0085 (-1.06)
<i>LEV</i>	-0.2613*** (-5.54)	-0.2612*** (-5.51)	-0.2538*** (-5.46)	-0.2539*** (-5.49)	-0.2540*** (-5.47)	-0.2535*** (-5.53)
<i>ROA</i>	-0.1376** (-2.38)	-0.1378** (-2.31)	-0.1560** (-2.38)	-0.1570** (-2.39)	-0.1583** (-2.43)	-0.1569** (-2.47)
<i>PPE</i>	-0.2224*** (-5.86)	-0.2259*** (-6.27)	-0.2119*** (-6.14)	-0.2130*** (-6.31)	-0.2120*** (-6.22)	-0.2097*** (-5.76)
<i>Age</i>	-0.0077 (-1.35)	-0.0088* (-1.73)	-0.0088 (-1.58)	-0.0088 (-1.59)	-0.0086 (-1.50)	-0.0068 (-1.05)
<i>CFFO</i>	-0.0199 (-1.08)	-0.0200 (-1.09)	-0.0224 (-1.22)	-0.0223 (-1.22)	-0.0225 (-1.21)	-0.0220 (-1.20)
<i>Size</i>	0.0238*** (3.67)	0.0234*** (3.55)	0.0241*** (3.68)	0.0240*** (3.51)	0.0240*** (3.49)	0.0242*** (3.72)
<i>Liquidity</i>	-0.2251*** (-5.83)	-0.2261*** (-5.96)	-0.2219*** (-6.00)	-0.2224*** (-6.05)	-0.2216*** (-5.99)	-0.2204*** (-5.92)
<i>ST</i>	-0.0304** (-2.39)	-0.0298** (-2.30)	-0.0261 (-1.55)	-0.0260 (-1.53)	-0.0262 (-1.54)	-0.0264 (-1.59)
<i>SEO</i>	-0.0176*** (-3.78)	-0.0175*** (-3.72)	-0.0181*** (-3.79)	-0.0182*** (-3.85)	-0.0181*** (-3.79)	-0.0183*** (-3.85)
<i>Board Size</i>	-0.0041 (-0.44)	-0.0040 (-0.43)	-0.0121 (-1.39)	-0.0118 (-1.39)	-0.0120 (-1.33)	-0.0098 (-1.16)
<i>Independent</i>	-0.0435 (-1.28)	-0.0406 (-1.20)	-0.0538* (-1.81)	-0.0544* (-1.85)	-0.0543* (-1.85)	-0.0555* (-1.97)
<i>Top1</i>	0.0002 (1.48)	0.0002 (1.62)	0.0002* (1.89)	0.0002* (1.88)	0.0002* (1.89)	0.0002* (1.81)
<i>Pay</i>	0.0074** (2.23)	0.0074** (2.33)	0.0069** (2.42)	0.0068** (2.36)	0.0070** (2.53)	0.0069** (2.66)
<i>CEO Duality</i>	0.0007	0.0013	0.0026	0.0026	0.0029	0.0021

	(0.20)	(0.36)	(0.77)	(0.78)	(0.84)	(0.58)
Constant	-0.2197	-0.2820**	-0.2616**	-0.2592*	-0.2661*	-0.1957
	(-1.34)	(-2.10)	(-2.09)	(-1.97)	(-2.02)	(-1.15)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Region FE	Yes	Yes	Yes	Yes	Yes	Yes
N	9,140	9,141	8,481	8,481	8,475	8,474
Adj.R ²	0.35	0.35	0.36	0.36	0.36	0.36

Table 7

Difference-in-Differences Analysis Using 2012 Political Shock

This table presents the DID estimation results using 2012 political shock. We take the 18th National Congress of the Communist Party of China in 2012 as a policy shock. *Treated* is a dummy variable that equals one if a firm has any controlling shareholder with overseas residency rights by 2012, and zero if a firm does not have any controlling shareholder with overseas residency rights over the sample period. *Post* is a dummy variable that equals one if the observation year is after 2012, and zero otherwise. To perform parallel trend test, we keep the observations four years ahead and after 2012, and we only keep firms without any change on controlling shareholders' residency status during this sample period. *Yearⁿ* is a dummy variable indicating whether a firm-year observation is four years before the treatment (-4), three, two, and one years before the treatment (-3, -2, and -1, respectively), in the year of the treatment (0), one, two, three and four years after the treatment (1, 2, 3 and 4, respectively). The columns (1) and (2) present the difference-in-differences estimation results of non-balanced panel samples and balanced panel samples, respectively. The columns (3) and (4) present the parallel trend test results of non-balanced panel samples and balanced panel samples, respectively. The dependent variable is *Trade Credit Received*, measured as total of notes payable, accounts payable and unearned revenue divided by total assets as of the fiscal year end. Definitions of other variables are presented in Appendix I. All control variables are lagged for one year. All continuous variables are winsorized at the 1st and 99th percentiles. Standard errors are robust to heteroskedasticity and clustered at the industry level with t-statistics reported in parentheses. *, **, and *** indicate significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

	Non-balanced Panel	Balanced Panel	Non-balanced Panel	Balanced Panel
	DID Estimation		Parallel Trend Test	
	(1)	(2)	(3)	(4)
<i>DV=Trade Credit Received</i>				
<i>Treated*Post</i>	-0.0102** (-2.29)	-0.0171** (-2.25)		
<i>Year⁻⁴</i>			-0.0079 (-0.45)	-0.0216 (-0.94)
<i>Year⁻³</i>			-0.0094 (-0.77)	-0.0310* (-1.73)
<i>Year⁻²</i>			-0.0038 (-0.50)	-0.0192 (-1.26)
<i>Year⁻⁰</i>			-0.0097** (-2.05)	-0.0188** (-2.05)
<i>Year⁺¹</i>			-0.0109* (-1.71)	-0.0240* (-1.84)
<i>Year⁺²</i>			-0.0156* (-1.95)	-0.0436** (-2.39)
<i>Year⁺³</i>			-0.0163** (-2.11)	-0.0378** (-2.10)
<i>Year⁺⁴</i>			-0.0177** (-2.17)	-0.0517*** (-3.36)
<i>LEV</i>	-0.0767*** (-9.12)	-0.0667*** (-4.76)	-0.0769*** (-5.66)	-0.0688*** (-3.13)
<i>ROA</i>	-0.0657*** (-4.50)	-0.0561** (-2.20)	-0.0659*** (-3.19)	-0.0565* (-1.67)
<i>PPE</i>	-0.0349*** (-3.97)	-0.0369** (-2.31)	-0.0348** (-2.43)	-0.0377 (-1.54)
<i>Age</i>	0.0397*** (3.75)	0.0146 (0.91)	0.0402** (2.09)	0.0140 (0.67)
<i>CFFO</i>	0.0094*** (3.30)	0.0186*** (3.97)	0.0094** (2.43)	0.0182*** (2.80)
<i>Size</i>	0.0070*** (4.07)	0.0087*** (3.03)	0.0070** (2.30)	0.0089** (1.97)
<i>Liquidity</i>	-0.0691***	-0.0458***	-0.0692***	-0.0472***

	(-14.23)	(-4.92)	(-9.39)	(-3.85)
<i>ST</i>	0.0000	-0.0041	-0.0000	-0.0045
	(0.01)	(-0.59)	(-0.00)	(-0.41)
<i>SEO</i>	-0.0079***	-0.0132***	-0.0079***	-0.0129***
	(-4.62)	(-5.08)	(-3.47)	(-3.67)
<i>Board Size</i>	-0.0118*	-0.0139	-0.0117	-0.0136
	(-1.77)	(-1.26)	(-1.33)	(-0.97)
<i>Independent</i>	0.0088	0.0765**	0.0086	0.0776*
	(0.43)	(2.14)	(0.32)	(1.67)
<i>Top1</i>	0.0001	0.0000	0.0001	0.0000
	(0.85)	(0.19)	(0.49)	(0.05)
<i>Pay</i>	0.0024	0.0009	0.0024	0.0004
	(1.25)	(0.29)	(0.78)	(0.07)
<i>CEO Duality</i>	0.0025	0.0075**	0.0026	0.0077
	(1.31)	(2.29)	(0.89)	(1.52)
Constant	-0.0551	-0.0264	-0.0556	-0.0219
	(-1.11)	(-0.33)	(-0.64)	(-0.17)
Year FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
N	9,875	3,420	9,875	3,420
Within R ²	0.05	0.06	0.05	0.06

Table 8
Freedom of Movement, Social Trust and Trade Credit

This table presents the regression results on how social trust affects the association between controlling shareholders' freedom of movement and trade credit received. The dependent variable is *Trade Credit Received*, measured as total of notes payable, accounts payable and unearned revenue divided by total assets as of the fiscal year end. The independent variable is *overseas*, a dummy variable that equals one if any of a firm's controlling shareholders in the current year has residency rights outside mainland China, and zero otherwise. "Runaway" index is a regional index constructed using the keyword search volumes of "Paolu" in *Baidu.com*, by netizen in different regions of China. "Fintech Lending" index is defined as the regional loan success rate of each province in *RenRenDai* platform, which is one of the largest P2P lending platforms in mainland China. The full sample is divided based on the medians of the respective measures. Definitions of other variables are presented in Appendix I. All control variables are lagged for one year. All continuous variables are winsorized at the 1st and 99th percentiles. Standard errors are robust to heteroskedasticity and clustered at the industry level with t-statistics reported in parentheses. *, **, and *** indicate significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

	<i>"Runaway" Index</i>		<i>"Fintech Lending" Index</i>	
	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>
	(1)	(2)	(3)	(4)
<i>DV=Trade Credit Received</i>				
<i>Overseas</i>	-0.0132** (-2.48)	-0.0097 (-1.62)	-0.0059 (-1.06)	-0.0136*** (-3.23)
<i>LEV</i>	-0.2312*** (-9.13)	-0.2154*** (-4.66)	-0.2581*** (-9.16)	-0.1961*** (-4.36)
<i>ROA</i>	-0.1565* (-1.82)	-0.1978*** (-4.61)	-0.1548*** (-4.24)	-0.1197** (-2.20)
<i>PPE</i>	-0.1811*** (-5.19)	-0.1871*** (-4.89)	-0.2246*** (-5.99)	-0.1875*** (-9.04)
<i>Age</i>	-0.0143 (-1.50)	-0.0100 (-1.29)	-0.0108 (-1.48)	-0.0067 (-0.52)
<i>CFFO</i>	-0.0066 (-0.32)	-0.0074 (-0.72)	-0.0214 (-1.22)	-0.0012 (-0.15)
<i>Size</i>	0.0219*** (5.01)	0.0243*** (3.36)	0.0217*** (5.98)	0.0228*** (3.12)
<i>Liquidity</i>	-0.1967*** (-5.84)	-0.1973*** (-6.22)	-0.2323*** (-7.98)	-0.1762*** (-5.15)
<i>ST</i>	0.0110 (0.82)	-0.0216 (-1.23)	-0.0303** (-2.78)	-0.0186 (-1.15)
<i>SEO</i>	-0.0245*** (-5.19)	-0.0089*** (-3.57)	-0.0177*** (-5.49)	-0.0142** (-2.26)
<i>Board Size</i>	0.0061 (0.83)	-0.0070 (-0.52)	0.0036 (0.58)	0.0001 (0.01)
<i>Independent</i>	-0.0239 (-0.80)	-0.0451 (-1.15)	-0.0110 (-0.52)	-0.0524 (-1.41)
<i>Top1</i>	0.0004** (2.38)	0.0003** (2.70)	0.0003** (2.72)	0.0004* (2.06)
<i>Pay</i>	0.0063* (1.97)	0.0128*** (3.28)	0.0047 (0.93)	0.0141*** (3.62)
<i>CEO Duality</i>	0.0085** (2.70)	0.0015 (0.34)	-0.0024 (-0.74)	0.0073 (1.28)
Constant	-0.3136*** (-3.23)	-0.4228** (-2.57)	-0.2305** (-2.64)	-0.3898*** (-2.94)
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Region FE	Yes	Yes	Yes	Yes
N	4,697	4,914	5,930	6,387
Adj.R ²	0.31	0.35	0.41	0.27

Table 9
Freedom of Movement, Expropriation Risk, and Trade Credit

This table presents the regression results on how the expropriation risk affects the association between controlling shareholders' freedom of movement and trade credit received. The dependent variable is *Trade Credit Received*, measured as total of notes payable, accounts payable and unearned revenue divided by total assets as of the fiscal year end. The independent variable is *Overseas*, a dummy variable that equals one if any of a firm's controlling shareholders in the current year has residency rights outside mainland China, and zero otherwise. In columns (1) and (2), we divide the sample by whether cash flow rights of the controlling shareholder exceed or below 50%. In columns (3) and (4), we divided the sample by whether the controlling shareholder serves as a chairman or CEO. In columns (5) and (6), we divide the sample by whether the separation of cash flow rights and control rights of the controlling shareholder is above or below the median value of the sample. Definitions of other variables are presented in Appendix I. All control variables are lagged for one year. All continuous variables are winsorized at the 1st and 99th percentiles. Standard errors are robust to heteroskedasticity and clustered at the industry level with t-statistics reported in parentheses. *, **, and *** indicate significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

	<i>Cash flow rights of the controlling shareholder</i>		<i>Whether the controlling shareholder serves as a chairman or CEO</i>		<i>Separation of cash flow and control rights</i>	
	<i>>=50%</i>	<i><50%</i>	<i>Yes</i>	<i>No</i>	<i>High</i>	<i>Low</i>
	(1)	(2)	(3)	(4)	(5)	(6)
<i>DV=Trade Credit Received</i>						
<i>Overseas</i>	-0.0014 (-0.25)	-0.0157*** (-3.59)	-0.0140*** (-4.64)	-0.0080 (-0.97)	-0.0179** (-2.14)	-0.0070 (-1.49)
<i>LEV</i>	-0.4018*** (-13.00)	-0.1888*** (-4.77)	-0.2461*** (-5.43)	-0.1794*** (-8.24)	-0.2089*** (-6.72)	-0.2109*** (-6.64)
<i>ROA</i>	-0.1717* (-1.84)	-0.1473*** (-4.12)	-0.1575** (-2.83)	-0.1138** (-2.52)	-0.1393*** (-3.52)	-0.1474*** (-4.34)
<i>PPE</i>	-0.3032*** (-7.78)	-0.1936*** (-8.50)	-0.2299*** (-6.91)	-0.1425*** (-6.27)	-0.2243*** (-9.46)	-0.1838*** (-7.57)
<i>Age</i>	-0.0180** (-2.45)	-0.0053 (-0.68)	-0.0103** (-2.11)	0.0014 (0.06)	-0.0095 (-1.00)	-0.0101 (-1.21)
<i>CFFO</i>	-0.0380 (-1.40)	-0.0041 (-0.40)	-0.0199 (-1.22)	0.0105 (1.36)	0.0004 (0.05)	-0.0188 (-1.26)
<i>Size</i>	0.0223*** (3.74)	0.0229*** (4.00)	0.0235*** (4.01)	0.0220*** (4.91)	0.0247*** (4.90)	0.0215*** (3.81)
<i>Liquidity</i>	-0.3435*** (-10.77)	-0.1743*** (-5.59)	-0.2250*** (-5.81)	-0.1445*** (-6.22)	-0.2050*** (-8.98)	-0.1890*** (-8.17)
<i>ST</i>	0.0024 (0.08)	-0.0207 (-1.56)	-0.0366** (-2.73)	-0.0049 (-0.30)	-0.0174 (-1.06)	-0.0403*** (-3.37)
<i>SEO</i>	-0.0301** (-2.86)	-0.0152*** (-4.79)	-0.0190*** (-5.11)	-0.0145*** (-3.83)	-0.0103*** (-2.83)	-0.0240*** (-4.88)
<i>Board Size</i>	0.0079 (0.72)	0.0013 (0.15)	-0.0058 (-0.59)	0.0239 (1.04)	-0.0009 (-0.08)	0.0064 (0.56)
<i>Independent</i>	-0.0869*** (-3.20)	-0.0187 (-0.61)	-0.0558* (-1.93)	0.0776 (0.95)	-0.0958** (-2.53)	0.0217 (0.61)
<i>Top1</i>	-0.0003* (-1.94)	0.0004** (2.64)	0.0003** (2.52)	0.0006*** (3.11)	0.0005*** (3.11)	0.0002 (0.85)
<i>Pay</i>	-0.0062 (-1.46)	0.0122*** (3.18)	0.0067* (1.92)	0.0182*** (3.35)	0.0092* (1.87)	0.0081** (2.56)
<i>CEO Duality</i>	0.0033 (0.83)	0.0003 (0.08)	0.0018 (0.58)	0.0102 (1.26)	0.0008 (0.12)	0.0054 (1.64)
Constant	0.0613 (0.72)	-0.3974*** (-3.28)	-0.2645** (-2.11)	-0.5282*** (-3.97)	-0.3450** (-2.68)	-0.3091*** (-2.84)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes

Region FE	Yes	Yes	Yes	Yes	Yes	Yes
N	2,083	10,118	9,361	2,956	6,101	6,100
Adj.R ²	0.53	0.30	0.36	0.30	0.35	0.30

Table 10
Freedom of Movement, Mobility of Assets and Trade Credit

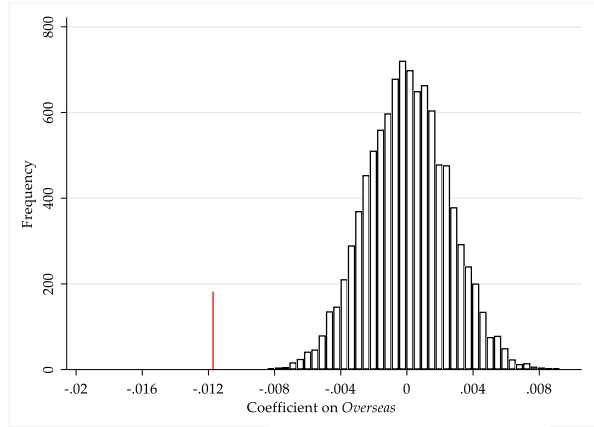
This table presents the regression results on how mobility of assets affects the association between controlling shareholders' freedom of movement and trade credit received. The dependent variable is *Trade Credit Received*, measured as total of notes payable, accounts payable and unearned revenue divided by total assets as of the fiscal year end. The independent variable is *Overseas*, a dummy variable that equals one if any of a firm's controlling shareholders in the current year has residency rights outside mainland China, and zero otherwise. The mobility of assets is measured by *Capital Intensity*, defined as the total of fixed assets and construction-in-progress divided by sales as of the fiscal year end. The full sample is divided into two subsamples based on the year-industry-median of the capital intensity. Definitions of other variables are presented in Appendix I. All control variables are lagged for one year. All continuous variables are winsorized at the 1st and 99th percentiles. Standard errors are robust to heteroskedasticity and clustered at the industry level with t-statistics reported in parentheses. *, **, and *** indicate significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

	<i>Capital Intensity</i>	
	<i>High</i>	<i>Low</i>
	(1)	(2)
<i>DV=Trade Credit Received</i>		
<i>Overseas</i>	-0.0091 (-1.53)	-0.0128*** (-3.03)
<i>LEV</i>	-0.1685*** (-4.39)	-0.2551*** (-6.45)
<i>ROA</i>	-0.1047*** (-3.23)	-0.1875** (-2.16)
<i>PPE</i>	-0.1963*** (-9.90)	-0.1351** (-2.31)
<i>Age</i>	-0.0148 (-1.55)	-0.0058 (-0.71)
<i>CFFO</i>	0.0007 (0.09)	-0.0194 (-1.04)
<i>Size</i>	0.0186*** (3.25)	0.0265*** (5.49)
<i>Liquidity</i>	-0.1692*** (-8.05)	-0.2103*** (-5.16)
<i>ST</i>	-0.0148 (-1.36)	-0.0319** (-2.87)
<i>SEO</i>	-0.0100** (-2.21)	-0.0202*** (-5.78)
<i>Board Size</i>	0.0065 (0.78)	-0.0020 (-0.22)
<i>Independent</i>	-0.0118 (-0.30)	-0.0399 (-1.08)
<i>Top1</i>	0.0004** (2.25)	0.0002 (1.33)
<i>Pay</i>	0.0089** (2.49)	0.0098 (1.72)
<i>CEO Duality</i>	0.0035 (0.83)	0.0018 (0.46)
Constant	-0.2648* (-2.01)	-0.5440*** (-6.03)
Year FE	Yes	Yes
Industry FE	Yes	Yes
Region FE	Yes	Yes
N	6,155	6,155
Adj.R ²	0.37	0.30

Table 11
Freedom of Movement, Overseas Business and Trade Credit

This table presents the regression results on how controlling shareholders' freedom of movement affects firms' overseas business. In column (1), the dependent variable is *Export_Total*, measured as a firm's export revenue divided by total revenue as of the fiscal year end. In column (2), the dependent variable is *Export_Pair*, measured as a firm's export value to the respective region/country where the controlling shareholders obtain residency permit divided by total revenue as of the fiscal year end. The independent variable is *Overseas*, a dummy variable that equals one if any of a firm's controlling shareholders in the current year has residency rights outside mainland China, and zero otherwise. Definitions of other variables are presented in Appendix I. All control variables are lagged for one year. All continuous variables are winsorized at the 1st and 99th percentiles. Standard errors are robust to heteroskedasticity and clustered at the industry level with t-statistics reported in parentheses. *, **, and *** indicate significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

	(1)	(2)
	<i>DV=Export_Total</i>	<i>DV=Export_Pair</i>
<i>Overseas</i>	0.0157 (1.62)	0.0016 (1.12)
<i>LEV</i>	0.0943 (1.58)	0.0102 (1.60)
<i>ROA</i>	-0.0411 (-0.78)	-0.0095 (-1.25)
<i>PPE</i>	0.1407** (2.27)	0.0288*** (4.08)
<i>Age</i>	-0.0421** (-2.72)	-0.0044** (-2.20)
<i>CFFO</i>	0.0120 (0.92)	0.0016 (1.27)
<i>Size</i>	-0.0066 (-1.70)	-0.0022*** (-4.29)
<i>Liquidity</i>	0.0443 (1.40)	0.0131*** (3.76)
<i>ST</i>	-0.0270** (-2.46)	-0.0049*** (-3.52)
<i>SEO</i>	0.0101 (1.69)	-0.0008 (-1.07)
<i>Board Size</i>	-0.0079 (-0.59)	0.0027 (0.99)
<i>Independent</i>	-0.0143 (-0.20)	-0.0010 (-0.12)
<i>Top1</i>	-0.0001 (-0.33)	0.0000 (0.18)
<i>Pay</i>	0.0117 (1.06)	0.0012 (1.20)
<i>CEO Duality</i>	0.0197** (2.33)	0.0013 (1.18)
Constant	0.0758 (0.38)	0.0245** (2.34)
Year FE	Yes	Yes
Industry FE	Yes	Yes
Region FE	Yes	Yes
N	12,310	10,485
Adj.R ²	0.14	0.15



Mean:0.000
Std.dev.:0.002
Minimum: -0.008
Maximum: 0.009

Figure 1
Placebo Test

Figure 1 shows a histogram distribution of the coefficients on *Overseas* from 10,000 bootstrap simulations of the model in column (2) of Table 3 when the dependent variable is *Trade Credit Received*, measured as total of notes payable, accounts payable and unearned revenue divided by total assets as of the fiscal year end. For each iteration, we draw a random sample of 1,409 observations (the same number as the number of actual overseas residency rights) as the “pseudo-treated” from our full sample pool and then treat the rest of the pool as “pseudo-control”. Based on these “pseudo-treated” and “pseudo-control” samples, we re-estimate of the baseline regression results of columns (2) in Table 3 and obtain the coefficients on *Overseas*.

Appendix I

Variable Definitions

<i>Variable</i>	<i>Definition</i>
<i>Dependent Variables</i>	
<i>Trade Credit Received</i>	Total of notes payable, accounts payable, and unearned revenue, divided by total assets as of the fiscal year end
<i>Trade Credit Provided</i>	Total of notes receivable, accounts receivable, and prepayments, divided by total assets as of the fiscal year end
<i>Net Trade Credit</i>	<i>Trade Credit Provided</i> minus <i>Trade Credit Received</i>
<i>Independent Variables</i>	
<i>Overseas</i>	A dummy variable that equals one if any of a firm's controlling shareholders in the current year has residency rights outside mainland China, and zero otherwise
<i>Overseas_Ratio</i>	The number of controlling shareholders with residency rights outside mainland China as a percentage of the total number of controlling shareholders
<i>Overseas_Extradition_Yes</i>	A dummy variable that equals one when any of a firm's controlling shareholders in the current year has residency rights in countries/regions that have signed extradition agreements with mainland China, and zero otherwise
<i>Overseas_Extradition_No</i>	A dummy variable that equals one when any of a firm's controlling shareholders in the current year has residency rights in countries/regions without extradition agreements with mainland China, and zero otherwise
<i>Control Variables</i>	
<i>LEV</i>	Leverage: the total of short-term loans, long-term loans, long-term loans due within one year, and bonds payable, divided by total assets as of the fiscal year end
<i>ROA</i>	Return on assets: net income for the fiscal year divided by total assets as of the fiscal year end
<i>PPE</i>	Property, plant and equipment: the total of net fixed assets and net construction in progress, divided by total assets as of the fiscal year end
<i>Age</i>	Firm age: the natural logarithm of firm age plus one in the current year
<i>CFFO</i>	Operating cash flows: net operating cash flow for the fiscal year divided by total sales as of the fiscal year end
<i>Size</i>	Firm size: the natural logarithm of the firm's total assets as of the fiscal year end
<i>Liquidity</i>	Liquidity: current assets minus current liabilities divided by total assets as of the fiscal year end
<i>ST</i>	A dummy variable that equals one if a firm receives special treatment in the current year, and zero otherwise
<i>SEO</i>	A dummy variable that equals one if the firm has had a seasoned equity offering or rights offering over the past two years, and zero otherwise
<i>Board Size</i>	Board size: the natural logarithm of the number of directors on the board
<i>Independent</i>	Independence of board: the ratio of the number of independent directors to the total number of directors
<i>Top1</i>	The ratio of the number of shares held by the largest shareholder to the total number of shares outstanding
<i>Pay</i>	The natural logarithm of the total compensation of the top three executives
<i>CEO Duality</i>	A dummy variable that equals one if a firm's chairman of board also serves as CEO in the current year, and zero otherwise
<i>Instrumental Variables</i>	
<i>Proportion of Christians</i>	The natural logarithm of one plus the number of Christians divided by the estimate population between 1901 and 1920 multiplied by 10,000, at the province level
<i>Proportion of Pupils Registered in Christian Schools</i>	The natural logarithm of one plus the number of pupils registered in Christian schools divided by the estimate population between 1901 and 1920 multiplied by 10,000, at the province level
<i>Leased Territory</i>	A dummy that equals one if any region in a province has been a leased territory historically, and zero otherwise
<i>Other Variables</i>	
<i>"Runaway" Index</i>	A regional index constructed using the volume of the keyword search for "Paolu" in <i>Baidu.com</i> , by netizens in different regions of China

<i>“Fintech Lending” Index</i>	The regional loan success rate of each province in the <i>RenRenDai</i> platform, one of the largest P2P lending platforms in mainland China
<i>Export_Total</i>	A firm’s export revenue divided by total revenue as of the fiscal year end
<i>Export_Pair</i>	The value of a firm’s exports to the region/country in which its controlling shareholders have obtained a residency permit, divided by total revenue as of the fiscal year end
<i>Capital Intensity</i>	The sum of fixed assets and construction-in-progress divided by sales as of the fiscal year end
<i>Personal Characteristics of Controlling Shareholders</i>	
<i>Controller Age</i>	The controlling shareholder’s age
<i>Gender</i>	A dummy variable that equals one if the controlling shareholder is male, and zero otherwise
<i>Political Connection</i>	A dummy variable that equals one if the controlling shareholder is a member of a government department above the provincial level, a deputy to the people’s congress above the provincial level, or a member of the CPPCC above the provincial level, and zero otherwise
<i>Finance</i>	A dummy variable that equals one if the controlling shareholder has a financial background, and zero otherwise
<i>Foreign</i>	A dummy variable that equals one if the controlling shareholder has overseas work or study experience, and zero otherwise

Appendix II

Robustness Check: Alternative Measures

This table presents the robustness results with alternative measures for dependent and independent variables. In column (1), the dependent variable is *Trade Credit Provided*, measured as total of notes receivable, accounts receivable and prepayments divided by total assets as of the fiscal year end. In column (2), the dependent variable is *Net Trade Credit*, denoted as *Trade Credit Received* minus *Trade Credit Provided*. In column (3), the dependent variable *Trade Credit Received* in year $t+1$. In columns (1)-(3), the independent variable is *Overseas*, a dummy variable that equals one if any of a firm's controlling shareholders in the current year has residency rights outside mainland China, and zero otherwise. In column (4), the independent variable *Overseas_Ratio* is the number of controlling shareholders with residency rights outside mainland China as a percentage of the total number of controlling shareholders as the independent variable. Definitions of other variables are presented in Appendix I. All control variables are lagged for one year. All continuous variables are winsorized at the 1st and 99th percentiles. Standard errors are robust to heteroskedasticity and clustered at the industry level with t-statistics reported in parentheses. *, **, and *** indicate significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

	(1) <i>DV=Trade Credit Provided</i>	(2) <i>DV=Net Trade Credit</i>	(3) <i>DV=Trade Credit Received_{t+1}</i>	(4) <i>DV=Trade Credit Received</i>
<i>Overseas</i>	-0.0053 (-1.20)	0.0071 (1.37)	-0.0106*** (-3.00)	
<i>Overseas_Ratio</i>				-0.0148*** (-3.95)
<i>LEV</i>	0.0511** (2.68)	0.2597*** (5.81)	-0.2052*** (-6.41)	-0.2152*** (-5.73)
<i>ROA</i>	0.0610 (1.07)	0.2038*** (5.02)	-0.1692*** (-3.79)	-0.1418*** (-3.56)
<i>PPE</i>	-0.1582*** (-4.95)	0.0469** (2.59)	-0.1908*** (-7.38)	-0.2050*** (-8.13)
<i>Age</i>	-0.0103 (-1.38)	0.0008 (0.13)	-0.0124 (-1.67)	-0.0108 (-1.44)
<i>CFFO</i>	-0.0593** (-2.66)	-0.0517*** (-4.38)	-0.0238*** (-3.20)	-0.0069 (-0.61)
<i>Size</i>	-0.0058 (-1.65)	-0.0286*** (-5.64)	0.0232*** (4.61)	0.0233*** (4.23)
<i>Liquidity</i>	0.0182 (0.89)	0.2108*** (7.78)	-0.1746*** (-6.65)	-0.1961*** (-6.35)
<i>ST</i>	-0.0198 (-1.64)	0.0020 (0.14)	-0.0187 (-1.38)	-0.0226 (-1.72)
<i>SEO</i>	0.0045 (1.17)	0.0202*** (5.34)	-0.0150*** (-4.98)	-0.0156*** (-4.31)
<i>Board Size</i>	0.0225** (2.59)	0.0228*** (2.93)	-0.0010 (-0.13)	0.0015 (0.20)
<i>Independent</i>	0.0496* (1.80)	0.0827*** (3.11)	-0.0327 (-1.37)	-0.0306 (-1.24)
<i>Top1</i>	-0.0002 (-1.70)	-0.0005*** (-3.93)	0.0003** (2.21)	0.0004** (2.56)
<i>Pay</i>	-0.0035 (-1.35)	-0.0134** (-2.50)	0.0120*** (3.19)	0.0102*** (2.97)
<i>CEO Duality</i>	-0.0017 (-0.52)	-0.0040 (-1.24)	0.0054 (1.18)	0.0028 (0.86)
Constant	0.3279*** (4.17)	0.6502*** (4.09)	-0.3279** (-2.72)	-0.3470** (-2.81)
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Region FE	Yes	Yes	Yes	Yes
N	12,317	12,317	12,317	12,317
Adj.R ²	0.24	0.30	0.25	0.32

Appendix III Quantile Regressions

This table presents the quantile regression results of the impact of controlling shareholders' freedom of movement on trade credit received. The dependent variable is *Trade Credit Received*, measured as total of notes payable, accounts payable and unearned revenue divided by total assets as of the fiscal year end. The independent variable is *Overseas*, a dummy variable that equals one if any of a firm's controlling shareholders in the current year has residency rights outside mainland China, and zero otherwise. In columns (1) to (5), we respectively present the quantile regression results of q20/q40/q50/q60/q80 of the dependent variable. Definitions of other variables are presented in Appendix I. All control variables are lagged for one year. All continuous variables are winsorized at the 1st and 99th percentiles. Standard errors are robust to heteroskedasticity and clustered at the industry level with t-statistics reported in parentheses. *, **, and *** indicate significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

	<i>q20</i>	<i>q40</i>	<i>q50</i>	<i>q60</i>	<i>q80</i>
	(1)	(2)	(3)	(4)	(5)
<i>DV=Trade Credit Received</i>					
<i>Overseas</i>	-0.0045*	-0.0073***	-0.0082***	-0.0116***	-0.0147***
	(-1.76)	(-2.70)	(-4.18)	(-5.11)	(-3.90)
<i>LEV</i>	-0.0886***	-0.1760***	-0.2286***	-0.2646***	-0.3537***
	(-11.29)	(-17.51)	(-17.73)	(-27.94)	(-22.77)
<i>ROA</i>	-0.0360***	-0.0764***	-0.1042***	-0.1305***	-0.1785***
	(-3.24)	(-3.65)	(-4.72)	(-6.75)	(-6.09)
<i>PPE</i>	-0.0681***	-0.1755***	-0.2267***	-0.2720***	-0.3984***
	(-9.61)	(-23.84)	(-18.29)	(-26.77)	(-31.33)
<i>Age</i>	-0.0056**	-0.0081***	-0.0125***	-0.0134***	-0.0168***
	(-2.41)	(-2.71)	(-5.33)	(-4.76)	(-4.40)
<i>CFFO</i>	-0.0121***	-0.0239***	-0.0306***	-0.0283***	-0.0245***
	(-4.26)	(-5.38)	(-4.40)	(-3.81)	(-3.16)
<i>Size</i>	0.0139***	0.0179***	0.0205***	0.0222***	0.0225***
	(14.70)	(13.90)	(14.62)	(14.04)	(12.12)
<i>Liquidity</i>	-0.0917***	-0.1769***	-0.2250***	-0.2671***	-0.3738***
	(-23.11)	(-30.85)	(-25.07)	(-38.44)	(-31.86)
<i>ST</i>	-0.0207***	-0.0324***	-0.0340***	-0.0319***	-0.0260*
	(-5.34)	(-4.76)	(-6.77)	(-3.81)	(-1.83)
<i>SEO</i>	-0.0049***	-0.0109***	-0.0154***	-0.0189***	-0.0206***
	(-2.83)	(-4.06)	(-6.92)	(-8.21)	(-7.12)
<i>Board Size</i>	0.0151***	0.0139**	0.0078	-0.0005	-0.0145**
	(2.96)	(2.10)	(1.16)	(-0.06)	(-2.00)
<i>Independent</i>	0.0002	0.0264	0.0253	0.0158	-0.0521**
	(0.01)	(1.31)	(1.14)	(0.61)	(-2.39)
<i>Top1</i>	0.0003***	0.0003***	0.0003***	0.0003***	0.0002**
	(5.73)	(6.58)	(4.86)	(4.32)	(2.38)
<i>Pay</i>	0.0045***	0.0084***	0.0084***	0.0076***	0.0086***
	(6.09)	(6.76)	(5.32)	(4.77)	(2.80)
<i>CEO Duality</i>	-0.0015	0.0003	0.0022	0.0028	0.0026
	(-1.14)	(0.17)	(1.11)	(1.45)	(1.34)
Constant	-0.2749***	-0.3214***	-0.2978***	-0.2482***	-0.0578
	(-11.32)	(-10.54)	(-7.24)	(-5.70)	(-1.23)
Year FE	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes
Region FE	Yes	Yes	Yes	Yes	Yes
N	12,317	12,317	12,317	12,317	12,317
Pseudo R ²	0.12	0.17	0.19	0.22	0.28

Appendix IV Propensity Score Matching

This table presents the propensity score matching regression results. The dependent variable is *Trade Credit Received*, measured as total of notes payable, accounts payable and unearned revenue divided by total assets as of the fiscal year end. The independent variable is *Overseas*, a dummy variable that equals one if any of a firm's controlling shareholders in the current year has residency rights outside mainland China, and zero otherwise. We respectively use the nearest neighbor matching, radius matching and kernel matching to match the observations with residency rights outside mainland China and the observations without residency rights outside mainland China. Definitions of other variables are presented in Appendix I. All control variables are lagged for one year. All continuous variables are winsorized at the 1st and 99th percentiles. Standard errors are robust to heteroskedasticity and clustered at the industry level with t-statistics reported in parentheses. *, **, and *** indicate significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

	<i>Nearest Neighbor Matching</i>	<i>Radius Matching</i>	<i>Kernel Matching</i>
	(1)	(2)	(3)
	<i>DV=Trade Credit Received</i>		
<i>Overseas</i>	-0.0155** (-2.29)	-0.0103** (-2.33)	-0.0116** (-2.64)
<i>LEV</i>	-0.1590*** (-3.01)	-0.1928*** (-3.78)	-0.1627*** (-2.98)
<i>ROA</i>	-0.0156 (-0.23)	-0.1550** (-2.83)	-0.1426** (-2.15)
<i>PPE</i>	-0.2163*** (-4.31)	-0.2229*** (-5.79)	-0.2013*** (-5.39)
<i>Age</i>	-0.0047 (-0.30)	-0.0143 (-1.20)	-0.0157 (-1.28)
<i>CFFO</i>	0.0130 (0.88)	0.0032 (0.19)	0.0064 (0.42)
<i>Size</i>	0.0255*** (4.55)	0.0232*** (3.24)	0.0258*** (3.97)
<i>Liquidity</i>	-0.1815*** (-5.60)	-0.1953*** (-5.83)	-0.1638*** (-3.63)
<i>ST</i>	-0.0275* (-1.86)	-0.0237 (-1.61)	-0.0116 (-0.98)
<i>SEO</i>	-0.0330*** (-4.18)	-0.0193*** (-3.17)	-0.0187*** (-3.13)
<i>Board Size</i>	0.0340 (1.62)	0.0134 (0.79)	0.0077 (0.59)
<i>Independent</i>	0.0878 (1.11)	-0.0094 (-0.13)	-0.0144 (-0.30)
<i>Top1</i>	0.0005** (2.28)	0.0005** (2.54)	0.0006*** (3.14)
<i>Pay</i>	-0.0026 (-0.28)	0.0111*** (3.25)	0.0048 (1.28)
<i>CEO Duality</i>	0.0131* (1.85)	0.0036 (1.14)	0.0081* (1.78)
Constant	-0.4209*** (-2.93)	-0.3970*** (-3.44)	-0.3651*** (-3.41)
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Region FE	Yes	Yes	Yes
N	2,416	6,915	11,990
Adj.R ²	0.45	0.36	0.32