



# Internal finance and growth: Microeconometric evidence on Chinese firms

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## Abstract

Using a panel of 79,841 Chinese firms over the period 2000–2007, we examine the extent to which liquidity constraints affect firms' assets growth. We find that state owned enterprises are not affected, while the availability of internal finance represents a binding constraint for the growth of private firms, especially those operating in coastal regions, with negligible foreign ownership. Thanks to their high productivity, cash flow is, however, so abundant for these firms that they are able to grow at a very fast rate, despite being discriminated against by financial institutions. Hence, well developed external capital markets may not always be needed for fast economic growth.

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## JEL classification

C23; D92; E44; G32; L25; O16

## Keywords

Assets growth; Cash flow; Financial constraints

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