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Abstract

The purpose of this paper is to examine the determinants of Taiwan's manufacturing firm growth, in particular, the effects of financial structure, corporate financing choices and Taiwanese outward FDI in China on firm growth in different industries besides other physical factors discussed in the literature. We construct an unbalanced dynamic panel data using 280 listed and OTC manufacturing firms over the period 1991–2002. The empirical method utilized is the generalized method of moments (GMM) proposed by Arellano and Bond (1991). Our results find that (1) the growth rates of firms are positively related to firm size, age, capital intensity, lagged R&D, export ratio, investment ratio, and profits; (2) high debt-to-equity ratio is associated with low corporation growth, while high return on total assets is associated with high corporation growth, which reflects that a firm with a relatively sound financial structure will facilitate their growth; (3) higher liquidity of stock market relative to the banking sector lead to higher growth of firms. However, larger size of stock market relative to the banking sector leads to lower the firm's growth, i.e., the smaller the indirect finance, the lower the firm growth; (4) firms engaged in FDI toward China might be hollowing-out; (5) individual firms that could be financed more from either bank or equity market will enjoy higher rates of growth compared to others in the same industries, but, those effects on traditional and basic industries are weaker; (6) high bank-financing ratio and internal financing are associated with higher firm growth, while firms using more bonds or equity financing tend to experience lower growth. However, the net positive effects of equity financing on traditional and basic firm growth are significantly greater.

Keywords: Financial structure · corporate finance · firm growth · outward FDI · GMM estimation · JEL Classification: C33 · JEL Classification: D92 · JEL Classification: F23