# The Impact of Financial Constraints on Exporting Firms' Exit during the Financial Crises

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**Abstract**

During the global crisis in 2008 and 2009, there had been the significant decline in international trade and a large number of firms stopped exporting. Bricongne et al. (2012) state that 21 percent of the reduction in trade volume can be explained by firms' exits from export markets in France. Furthermore, after financial crises over 2008-2009, financing constraints have been reconised as one of main determinants of firms' decisions both in domestic industry and export markets. A variety of empirical studies have explored the relationship between credit constraints and firms' choices on entering into or exit the industry and international markets. In addition to those points, we take into account the idea of industry heterogeneity regarding external capital dependence. If a firm is in an industry that heavily depends on the external finance, the firm may be more sensitive to the shock from financial crises since it is more difficult to access to the outside funds during the event. Although some previous empirical studies use this framework and sector-level trade data in order to quantify the impact of financial constraints on trade during global crisis, they do not focus on firms' exit in their empirical works. To fill the gap, we are going to investigate the impact of sector-and country-level credit constraints on the exit decision of exporting firms during the banking and financial crises using unbalanced panel data from 5 developed and 37 developing countries during the period of 1998-2011.

Our main findings are twofold. Firstly, after controlling for external shocks, our results show that the probability of export exit increases in the country with poorer credit condition. Furthermore, when a firm exits export markets in year *t*, their decision depends more on countries' financial constraints in year *t-1* than that in *t*. Secondly, export exits may be driven by the force of the new entrants. This could be explained by the idea that more new exporters may lead to higher competitions in the international market and this fact might cause more closures in the market. In addition, the exit rate in *t* was more affected by the rate of entry in *t* than that in *t-1*. After calculating the expected probability of export exit, we suggest that policy interventions should target both more competitive industries and financially constrained countries during and after the financial crises as a policy implication, although the effect might be limited.