Natural Disasters, Financial Shocks, and Firm Export

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Abstract

This paper investigates the effect of banks' lending capacity on firms' export. To identify exogenous shocks to firms' bank financing, we utilize the natural experiment provided by Japan's Great Hanshin-Awaji (Kobe) earthquake in 1995. Using a unique firm-level dataset that allows us to identify firms and banks in the earthquake-affected area, together with information on bank-firm relationships, we find the following. First, we find significantly negative impacts on both the extensive and intensive margins of export among firms located *outside* the earthquake-affected area but having a main bank *inside* the area. Second, the adverse impact on the intensive margins is more sizable among firms in the industries shipping products mainly by sea than in the industries mainly shipping by air. This underlines the importance of banks as providers of trade finance for firms that transact bulky goods and need long-term trade finance. Third, the negative impact on the extensive margins is robust to two alternative specifications of bank damage, that is, damage to the headquarters and damage to the branch networks.

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Key words: Bank Lending; Firm Export; Extensive and Intensive Margins

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