Investment and Asset Growth of Asian Firms: Evidence for Financial Resilience in the Recent Financial Crisis

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Summary

Based on a large panel of listed companies from China, Hong Kong, Indonesia, South Korea, Malaysia, the Philippines, Singapore, Taiwan, and Thailand over the period 2000-2009, we analyse the links between investment in fixed capital, assets growth, and cash flow before and during the recent financial crisis. When focusing on the full sample, positive sensitivities of both fixed investment and assets growth to cash flow are found, suggesting that the availability of internal funds plays a crucial role in determining firm investment and growth. Similar results are obtained when separate regressions are run for individual countries. In addition, there are no significant differences in the sensitivities of assets growth to cash flow before and after the crisis. These findings suggest that Asian firms were resilient to the crisis because they continued to use internal funds to invest and grow as they had done prior to the crisis.

We next differentiate our sample into high- and low-growth countries and find that only firms located in the former exhibit positive and significant assets growth to cash flow sensitivities, of similar magnitudes before and during the crisis. This indicates that firm in high-growth countries have greater resilience than firms in low growth countries, as they appear to be willing to use retained profits to grow in non-crisis and crisis periods. When partitioning our sample into high- and low-cash countries, we do not find significant differences between the two groups, suggesting that relative stocks of cash do not affect the willingness of firms to use internal funds to support growth in crisis or non-crisis periods.

We finally differentiate our sample on the basis of firm characteristics. In particular, we first partition firms into those with positive and negative cash flow, with the aim of assessing whether the latter, which might be financially distressed, exhibit different assets growth to cash flow sensitivities. We find positive sensitivities for both groups both before and after the crisis, suggesting that whether cash flow is positive or negative does not matter for Asian firms. Similarly, we find that having positive or negative working capital also does not affect the sensitivities before and after the crisis. The positive assets growth to cash flow sensitivities that we observe may therefore be an indicator of the readiness of firms to use internal funds to finance growth, and to continue to do so during a financial crisis.