

## ABSTRACT

This study investigates the role formal and informal finance play in China's ethnic minority areas. The Tujia ethnic areas and Xinjiang Uygur Autonomous Region are taken as our case of ethnic minority area. This is because the Tujia and the Uygur are typical representatives of China's various ethnic minorities and their economic situation is very important for ethnic minority policies in China.

First we examine the relationship between finance and enterprise performance in China's ethnic minority areas. Using the survey data of the Wufeng Tujia Autonomous County for 2010, we confirm that bank loans play a significant role in promoting enterprise performance. We also find that trade credit have influence on enterprise performance through the intermediate role of the working capital turnover ratio (WTR) with a panel data for enterprises in the Tujia ethnic areas of Hubei Province.

Next we investigate the relative importance of bank loans and trade credit in promoting enterprise performance in China's ethnic minority areas. Using the panel data we examine the effect of bank loans and trade credit on enterprise performance in the Tujia ethnic areas and Xinjiang, respectively. We further make a comparative analysis on the effect of finance in these areas and explore the reasons why finance plays different roles in the Tujia ethnic areas and Xinjiang.

Our study demonstrates that bank loans significantly promote enterprise productivity in China's ethnic minority areas. Bank finance also has a positive effect on enterprise profitability in the Tujia ethnic areas. While in Xinjiang it has negative association with enterprise profitability; this may be due to the mismatch between an enterprise's operations capability and marketing capability, moreover, geographic and cultural distance increase the difficulty in access to the market for the enterprises of Xinjiang. In addition, we find that trade credit is an effective financing channel and it can be used as a complement to bank loans in the Tujia ethnic areas. However, we cannot find strong empirical evidence that trade credit affects enterprise performance in Xinjiang, which may be due to the market environment and community composition. Furthermore, we find that there is no difference in the returns from bank loans between ethnic enterprises and Han enterprises, either in the Tujia ethnic areas or in Xinjiang. To the contrary, ethnic enterprises appear to obtain higher returns from trade credit than Han enterprises in the Tujia ethnic areas. We also find that the returns from trade credit for ethnic enterprises are lower than for Han enterprises in Xinjiang.