

# Impact of Economic Policy Uncertainty on the Financialization of Firms: Evidence from China

Yuxin Qin<sup>1, a</sup>, Haoyan Shi<sup>1</sup>

<sup>1</sup>Beijing University of Technology

<sup>a</sup>qyx18374028986@163.com

**Abstract.** This paper aims to explore the impact of economic policy uncertainty on the degree of financialization of enterprises. Taking the A-share listed companies in Shenzhen and Shanghai from 2003 to 2022 as an example, the research shows that economic policy uncertainty has a promoting effect on the financialization trend of enterprises. Economic policy uncertainty significantly increases the proportion of financial asset investment of real enterprises, aggravates the financialization trend of enterprises, and produces the worry of industrial hollowing out. To restrain the process of enterprise "from real to virtual", this paper puts forward corresponding solutions from the level of state and enterprise.

**Keywords:** enterprise financialization; economic policy uncertainty

## 1. Introduction

The reform and opening up of the financial market have not only promoted the rapid development of the financial industry but also profoundly affected the investment behavior of real enterprises. After the outbreak of the international financial crisis in 2008, the return on investment of the real economy worldwide plummeted. To promote the rapid recovery of the real economy, central banks have adopted loose monetary policy measures. However, instead of flowing into the real sector of the economy, a large amount of capital poured into the financial market. In response to the complex environment brought about by the global financial crisis, China's regulatory authorities formulated a series of policies to maintain the stable operation of the macroeconomy. For example, China poured four trillion dollars into the market to boost infrastructure development, while the central bank injected new momentum into the economy by issuing interest rate cuts to improve market liquidity. The outbreak of the epidemic in 2020 posed a serious threat to the global economy. To restore the national economy as soon as possible, the Chinese government once again proposed a "double-cycle" economic development pattern. This development concept focuses on domestic demand-led, domestic market-based economic growth driven by consumption and innovation. By strengthening the matching of supply and demand in the domestic market, the competitiveness of enterprises can be improved, thus promoting sustainable economic development.

The real economy is the foundation of a great nation, and the economy cannot be transformed from real to virtual. We must hold on to the real economy, and solidly climb the world's peaks," which indicates that the Party Central Committee has placed the development of the real economy in a prominent and primary position. In recent years, along with the coal and other traditional industries of overcapacity, the return on investment of real enterprises gradually declined, and some enterprises began to focus on the financial sector. This has led to the non-financial enterprises gradually putting funds into the financial channel, so that the enterprise's financial investment gradually crowded out fixed investment, resulting in the enterprise's "off the real to the virtual" trend becoming increasingly significant. The Outline of the Fourteenth Five-Year Plan for the National Economic and Social Development of the People's Republic of China and the Vision for 2035 further points out that not only is it necessary to create a favorable environment for the development of the real economy, but it is also necessary to steadily push forward the enhancement of the quality and efficiency of the real enterprises, to prevent them from moving away from the real to the virtual. In this context, scholars have defined the phenomenon of non-financial enterprises' "being diverted out of the real economy" as the phenomenon of "enterprise

financialization", which is the phenomenon of leaving the track of the original main business and investing resources in the financial field to obtain investment returns. Therefore, an in-depth analysis of the motives behind the financialization of enterprises is of great significance in guiding enterprises to focus on the real industry and improving China's development strategy.

This paper will analyze the phenomenon of economic policy uncertainty and the financialization of real enterprises, and further explore the relationship and influence mechanism behind the two. It finally concludes that economic policy uncertainty is positively correlated with the financialization of enterprises to provide a certain supplement to the literature related to the study of economic policy uncertainty and the financialization of enterprises. Economic policy will aggravate the trend of enterprise financialization. Therefore, an in-depth analysis of the motives behind enterprise financialization is of great significance in guiding enterprises to focus on the real industry and improving China's development strategy.

## 2. Literature Review

Studies on the mechanism of the impact of economic policy uncertainty on the financialization of enterprises are broadly divided into the following two views.

Some scholars believe that economic policy uncertainty inhibits the development of the financialization of real enterprises. Zhao (2022) empirically analyzed the impact mechanism of economic policy uncertainty on the financialization of real enterprises using the DID model and concluded that economic policy uncertainty harms the financialization of enterprises. The author further points out that the inhibitory effect of economic policy uncertainty is more significant on the financialization of private enterprises, foreign-funded enterprises, real enterprises in the growth period. Peng et al. (2018) used the quarterly data of listed companies in Shanghai and Shenzhen from 2007 to 2015 and empirically analyzed that the rise of economic policy uncertainty significantly inhibited the trend of corporate financialization. The authors further researched that the increase of economic policy uncertainty not only affects the total amount of investment in corporate financialization assets, but also has an impact on corporate financialization asset allocation. Chen (2023) utilized the financial data of China's Shanghai and Shenzhen A-share listed companies in the non-financial industry from 2007 to 2020, concluding that economic policy uncertainty significantly reduces the proportion of firms' allocation of short-term financial assets, and raises the proportion of holding long-term financial assets and the total effect of the benchmark model still negative.

However, there are still some scholars who believe that economic policy uncertainty can effectively promote the degree of financialization of real enterprises. Nie et al. (2020) started from the perspective of the heterogeneity of individual enterprise's feelings, used text mining technology to construct a perception index that can reflect the individual enterprise's perception of economic policy uncertainty, and explored the impact of the enterprise's perception of economic policy uncertainty on its entity and financial investment, concluding that the enterprise with stronger uncertainty will reduce its investment in the entity while increasing its financial assets. Using data on non-financial firms in the A-share market for the period 2007-2019, Guo and Zhu (2020) concluded that due to frequent changes in economic policies, firms' real investment levels decline, which leads to firms being forced to increase their financial assets in the face of shocks.

Above all, although the existing academic research on the relationship between economic policy uncertainty and enterprise financialization is divided, it provides a reference for the development of research ideas in this paper. Based on this, this paper will empirically examine the impact of economic policy uncertainty on enterprise financialization, and provide empirical evidence to curb the phenomenon of enterprise "hollowing out" as well as the government's formulation of macroeconomic policies.

### 3. Hypothesis Development

In the theory of real options, investment projects are irreversible. Due to the existence of sunk costs, firms make investment decisions by comparing the difference in returns between current and future investments to find the optimal time to invest, thus avoiding adjustment costs. In addition, firms are faced with the question of whether the option price will increase over time. If the company's future investment opportunities as a call option, the greater the uncertainty, the greater the value, the greater the profit, and the more tempting to "wait" for the payoff implied, the company will reduce its current investment behavior at this time. However, when faced with more uncertainty than in the case of fixed assets, the value of treating a financial asset as an option to buy increases, and the firm will tend to increase its investment in the financial asset. For firms, investing in financial assets is a form of "waiting", converting current uncertainty into future financial investment returns.

Existing research shows that the rise of economic policy instability will significantly increase the information asymmetry between internal and external enterprises (Li et al., 2022). When economic policy instability rises, the information recognition ability of enterprises is disturbed by uncertainty. Especially for enterprises that are more affected by economic policy instability, the impact on their access to external investment information is more serious. In the case of information uncertainty, corporate entity investment makes it difficult to grasp the market demand expectations, the situation of industry competitors, and policy orientation, making it difficult to form stable return expectations for investment. Given that company performance and promotion are usually closely related to company performance, risk-averse managers based on prudence will adopt more "wait-and-see" strategies in the face of uncertain risks (Zhang et al., 2022). In financial assets, in addition to playing the role of risk diversification "reservoir", its derivatives such as forwards, options, etc., also played the role of hedging, providing short-term income for the company. Therefore, during the waiting period, companies will allocate idle funds to financial assets to obtain short-term gains, which will increase the proportion of financial assets.

According to the analysis of the relationship between economic policy uncertainty and enterprise financialization, there may be a positive correlation between economic policy uncertainty and enterprise financialization, as well as a negative correlation. There is no uniformity in existing research, according to which this paper puts forward the following competing hypotheses.

H1a: Economic policy uncertainty has a facilitating effect on enterprise financialization.

H1b: Economic policy uncertainty has an inhibitory effect on enterprise financialization.

### 4. Empirical Analysis

#### 4.1 Sample Selection and Data Source

While most current studies are limited by relatively short time spans, data sets with long periods can capture trends and evolution over many years, providing more comprehensive and in-depth insights. This paper chooses the quarterly data of Shanghai and Shenzhen A-share listed companies from 2003 to 2022 as samples. Referring to the common practice in the existing literature, the initial sample is processed as follows: (1) excluding the samples of financial listed companies; (2) excluding the samples of ST and \*ST companies during the sample period. The final sample of 37,353 observations is obtained after processing. The data in this paper are all derived from the database of Cathay Pacific (CSMAR). Meanwhile, to avoid the influence of extreme values on the final result analysis, all continuous variables in the model are quantitatively shrunk at 1% and 99% quantile. In this paper, Stata 16.0 software is mainly utilized to perform computational processing and regression operations on the selected data.

#### 4.2 Variable Definition and Measurement

##### 4.2.1 Explained variable: financialization of enterprises (Fin)

Referring to Du Yong et al. (2019) to measure the financialization of real enterprises, it is cut from the perspective of financial returns, and expressed by (the sum of the returns obtained from various financial channels - the operating profit of the enterprise) / the absolute value of the operating profit of the real enterprise. However, since the measure may be negative, biasing the results of the study, the sum of financialization as a share of total assets is multiplied by 100 as a measure of financialization of the enterprise. The specific calculation method is Degree of financialization of enterprises = (trading financial assets + net interest receivable + net dividend receivable + net available-for-sale financial assets + net held-to-maturity investments + net long-term equity investments + net investment properties) \* 100 / total assets at the end of the period.

#### 4.2.2 Core explanatory variables: economic policy uncertainty (cnepu)

Based on the previous comparative analysis of different economic policy uncertainty indices, this paper launches a supplementary analysis with the data of Baker et al. compiled by Lu Shangqin and Huang Yun. The data published by Cathay Pacific (CSMAR) is monthly, while the frequency of data in this study is annual. Therefore, following the practice of Gu Haifeng and Yu Jiajun (2019), this paper adopts the practice of taking arithmetic averages between months to convert monthly data into annual data, which is calculated as follows.

China's economic policy uncertainty = the sum of the economic policy uncertainty index in the first month of the current year until the end month of the current year / 12

#### 4.2.3 Control variables

Considering the existence of other factors affecting the financialization of firms, this paper refers to the approach of Lin, Zhonggao, and Wei, Wentao (2022), and analyzes the factors that may affect the process of financialization at the firm level from the perspective of firm characteristics (e.g., firm size, total assets, total market capitalization, net profit, total liabilities, years of operation, cash flow from operations, and Tobin's Q) and corporate governance (e.g., the four major international corporations, nature of property rights, and the unification of the two positions). The following control variables are selected: firm size, financial leverage, years of operation, profitability, investment opportunities, growth, cash flow, dual, audit supervision, and big4. The variable definitions are detailed in Table 1 as follows.

Table 1. Definition of Variables and Measurement Methods

Variable Type	Variable	Symbol	Measures
Explained Variable	Financialization	fin	Financial assets as a percentage of total assets multiplied by 100
Explanatory variable	Economic Policy Uncertainty	cnepu	Weighted average of economic policy uncertainty indices for all months of the year
Control Variables	Enterprise Size	size	the logarithm of the firm's total assets at the end of the period.
	Financial Leverage	lev	the ratio of total liabilities to total assets at the end of the period.
	Years in Business	lnage	the enterprise's establishment year to take the logarithm.
	Profitability	roa	the ratio of net profit to total assets at the end of the period.
	Investment Opportunities	tobin	the ratio of total market capitalization to total assets at the end of the period.
	Growth Ratio	grow	the enterprise this year's operating income and last year's operating income ratio minus 1.

Cash Flow Ratio	cflow	the ratio of net cash flow from operating activities to total assets.
Dual Duties	dual	dummy variable, when the chairman of the board of directors and general manager for the same person is to take 1, and vice versa take 0.
Audit Oversight	big4	dummy variable indicating whether the firm has good credibility. If the enterprise is audited by the Big 4 (PricewaterhouseCoopers, Deloitte, KPMG, Ernst & Young), it is 1, otherwise it is 0

In addition, to avoid the influence of individual factors that do not change over time and time factors that do not change over time on the regression results, this paper also includes individual-fixed effects and year-fixed effects in the regression.

### 4.3 Model Construction

To verify H1, this paper constructs the following fixed-effects model for examining the impact of economic policy uncertainty on corporate financialization:

$$Fin_{i,t} = \beta_0 + \beta_1 * cnepu_t + \beta_2 * \sum control_t + D_i + D_t + \varepsilon_{i,t}$$

In the above equation,  $Fin_{i,t}$  denotes the degree of financialization of firm  $i$  in year  $t$ ,  $cnepu_t$  is the level of uncertainty of Chinese economic and political policy in year  $t$ ,  $\sum control_t$  is the value of control variables taken in all year  $t$ ,  $D_i$  denotes the fixed effect that firm  $i$  is independent of other firms,  $D_t$  denotes the fixed effect that the uncertainty of the economic policy in year  $t$  distinguishes it from the other years, and  $\varepsilon_{i,t}$  is a random disturbance variable.

## 5. Empirical Tests

### 5.1 Descriptive Statistics

Table 2 shows an overview of the main data, i.e. the results of descriptive statistics. As can be seen from Table 2, the mean value of the financialization of enterprises is 24.86, and the maximum value is 75.57, indicating that there has indeed been a "de-realization" of enterprises in China in recent years. The average value of economic policy uncertainty faced by individual enterprises is 367.56, and the maximum value is 791.87, indicating that different enterprises are affected by different economic policy uncertainty. Among the control variables, the average enterprise size (size) is 22.13, the average financial leverage (lev) is 0.45, the mean value of enterprise operating years (lnage) is 2.23, the average profitability (roa) is 0.03, the mean value of Tobin's Q is 2.06, the average growth ratio (grow) is 0.06, the average value of cash flow ratio (cflow) is 0.05, the mean value of dual (dual) is 0.25, and the mean value of audit supervision is 0.06, and the statistical results are consistent with most of the existing studies.

Table 2. Descriptive Statistics Results

Variable	Obs	Mean	Std.Dev.	Min	Max
Fin	37353	24.86	15.61	2.72	75.57
cnepu	37353	367.56	248.58	64.96	791.87
size	37353	22.13	1.32	19.45	26.16
lev	37353	0.45	0.21	0.06	0.98
lnage	37353	2.23	0.74	0.00	3.33
roa	37353	0.03	0.07	-.33	.20
tobin	37353	2.06	1.41	.85	9.40
grow	37353	0.06	0.32	-1.63	.76
cflow	37353	0.05	0.07	-.18	.25

dual	37353	0.25	0.43	0	1
big4	37353	0.06	0.24	0	1

## 5.2 Correlation Test

Table 3 reports the correlation coefficient matrix between the variables. From the table, it can be seen that the Pearson correlation coefficient between economic policy uncertainty and enterprise financialization is 0.019 and is significant at the 1% level, indicating that there is a positive correlation between economic policy uncertainty and financialization. Regarding the control variables, the correlation coefficients between enterprise size, financial leverage, enterprise operating years, growth ratio, and audit supervision are all significantly negative with enterprise financialization, indicating that all of the above factors may inhibit the enterprise's investment in financialization, whereas the correlation coefficients between profitability, Tobin's Q mean, cash flow ratio, and the combination of two jobs are all significantly positive with the enterprise's financialization, suggesting that the above variables promote the enterprise's investment in financial assets, thus increasing the share of financial assets in total assets.

Table 3. Correlation Coefficient Matrix

Variables	Fin	cnepu	size	lev	lnage	roa	tobin	grow	cflow	dual	big4
Fin	1.000										
cnepu	0.019	1.000									
size	-0.123	0.197	1.000								
lev	-0.339	-0.070	0.365	1.000							
lnage	-0.021	0.178	0.349	0.314	1.000						
roa	0.183	-0.047	0.075	-0.364	-0.161	1.000					
tobin	0.156	-0.026	-0.389	-0.198	-0.004	0.082	1.000				
grow	-0.045	-0.079	0.086	-0.039	-0.126	0.363	-0.025	1.000			
cflow	0.085	0.048	0.079	-0.158	-0.017	0.356	0.059	0.117	1.000		
dual	0.038	0.091	-0.123	-0.122	-0.192	0.016	0.077	0.016	-0.017	1.000	
big4	-0.012	-0.005	0.347	0.083	0.067	0.048	-0.088	0.011	0.077	-0.056	1.000

## 5.3 Regression Analysis

Based on the panel data of listed firms from 2007 to 2020, this paper conducts regression tests on the fixed effects model (Table 4). To determine whether the conclusion is robust after adding control variables, control variables are added sequentially for basic regression analysis. Column (1) of Table 4 contains only the explanatory variables and the cross-multiplier term, and the coefficient of the cross-multiplier term is significantly positive, which indicates that the increase of economic policy uncertainty can accelerate the process of financialization of firms when China has repeatedly adopted new economic policies to regulate the market to cope with the impacts of subprime mortgage crisis, European debt crisis, and so on. Table 4 columns (2)-(3) show the regression results after adding control variables, and the significance of the cross-multiplier term is not disturbed. Referring to the study of Li (2022), since the selected indicators of economic policy uncertainty are mainly expressed at the macronational level, to examine their specific impact on micro-business decisions, column (3) replaces the indicators of macroeconomic policy uncertainty with the economic policy uncertainty of each province at the micro level. Table 4 shows that the significance of the cross-multiplier term remains unchanged and the conclusions remain robust.

Table 4. Regression Results of EPU on Financialization of Firms

	(1)	(2)	(3)
VARIABLES	Fin	Fin	Fin
cnepu	0.008*** (11.48)	0.024*** (26.95)	0.024*** (26.96)
size		-0.855*** (-6.99)	-0.877*** (-7.13)
lev		-21.103*** (-42.12)	-21.090*** (-41.87)

lnage		-5.184***	-5.173***
		(-23.12)	(-23.05)
roa		7.619***	7.592***
		(7.24)	(7.21)
tobin		0.466***	0.438***
		(7.73)	(7.25)
grow		-1.800***	-1.786***
		(-9.68)	(-9.59)
cflow		17.681***	17.737***
		(19.68)	(19.73)
dual		0.369**	0.361**
		(2.06)	(2.01)
big4		0.345	0.277
		(0.76)	(0.61)
Constant	20.057***	51.374***	54.598***
	(49.23)	(20.50)	(19.56)
Observations	37,353	37,353	37,344
R-squared	0.028	0.151	0.153
Number of stkcd	3,161	3,161	3,161
ID FE	YES	YES	YES
Year FE	YES	YES	YES
Province FE	NO	NO	YES

t-statistics in parentheses

\*\*\* p&lt;0.01, \*\* p&lt;0.05, \* p&lt;0.1

#### 5.4 Heterogeneity Test

Based on the conclusion above, this study further groups the sample firms to investigate whether the original conclusion still holds. This paper first takes the nature of the sample enterprises as the basis of division and divides the whole sample into SOEs/non-SOE groups for regression, and the regression results of the grouping of enterprises of different natures are reported in columns (1)-(2) of Table 5.

From Table 5, it can be seen that the promotion effect of economic policy uncertainty on the financialization of enterprises applies in all groups and the conclusion is robust. By comparing the coefficients after group regression, it can be found that the coefficients of the variables among enterprises of different natures are significantly different, among which the regression coefficients of economic policy uncertainty in SOEs are significantly smaller than those in non-SOEs, which indicates that in SOEs, the promotional effect of economic policy uncertainty on enterprise financialization is significantly weaker than that in non-SOEs.

Compared to state-owned enterprises, non-state-owned enterprises tend to be more susceptible to the impact of economic policy uncertainty. This susceptibility can be attributed to two primary factors. Firstly, state-owned enterprises are typically government-owned in part or in whole, and governments often implement policies that prioritize the stability and interests of state-owned entities, rendering them relatively more stable in the face of policy changes. Conversely, non-state-owned enterprises are usually privately or externally owned, making their operations and investments more vulnerable to direct market and policy fluctuations. The uncertainty surrounding government policies can result in heightened risks for non-state-owned enterprises, as policy changes can directly impact their business operations and investments. Secondly, Policy uncertainty can lead to market volatility, significantly affecting the financing costs and feasibility of non-state-owned enterprises. In contrast, state-owned enterprises, to some extent, rely more on government support and may exhibit greater resilience to market fluctuations.

In addition, columns (3)-(4) of Table 5 report the regression results for subgroups of different firm sizes. Firm size is categorized based on the median of total assets of all firms in each year; those with assets less than the median in the current year are small firms; conversely, they are large firms. As can be seen from the results, the regression coefficients for small firms are larger than those for large firms, and thus the degree of financialization of small firms is more sensitive to

economic policy uncertainty in the current year. The principle of this finding is perhaps similar to that of the firm category and is not explained too much here.

Table 5. Heterogeneity Test Results

VARIABLES	(1) Fin state enterprises	(2) Fin non-state enterprises	(3) Fin large enterprises	(4) Fin small enterprises
cnepu	0.019*** (15.49)	0.028*** (18.44)	0.017*** (14.50)	0.031*** (21.33)
size	-1.261*** (-7.21)	-0.454** (-2.55)	-0.547*** (-2.92)	-1.191*** (-4.15)
lev	-17.865*** (-24.38)	-22.044*** (-31.38)	-20.276*** (-27.02)	-21.353*** (-28.66)
lnage	-3.339*** (-8.60)	-6.292*** (-20.11)	-2.717*** (-8.03)	-7.530*** (-21.23)
roa	8.629*** (5.00)	7.142*** (5.28)	5.092*** (3.09)	7.255*** (5.24)
tobin	0.156 (1.60)	0.620*** (7.87)	0.358*** (3.22)	0.543*** (6.42)
grow	-1.413*** (-5.23)	-1.833*** (-7.28)	-0.956*** (-3.82)	-2.061*** (-7.92)
cflow	16.748*** (13.58)	19.498*** (15.42)	18.742*** (16.54)	18.428*** (13.77)
dual	0.275 (0.93)	0.317 (1.37)	0.444* (1.87)	0.199 (0.74)
big4	-0.345 (-0.66)	1.048 (1.33)	-0.548 (-1.23)	2.587** (2.19)
Constant	60.131*** (16.23)	40.352*** (11.12)	42.819*** (10.70)	58.555*** (10.14)
Observations	15,920	21,433	18,676	18,677
R-squared	0.117	0.176	0.116	0.180
Number of stkcd	1,314	2,277	1,994	2,462
ID FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

t-statistics in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

## 5.5 Robustness Test

### 5.5.1 Endogeneity test

Using the fixed effect model at the time and individual level in the baseline regression can effectively mitigate the impact of missing variables on the estimation results, but the unobservable factors that change with time at the regional level may still be missed. To alleviate such endogenous problems as far as possible, this paper controls the fixed effects of time  $\times$  province based on baseline regression and also controls the unobservable factors that change with time at the provincial level. The regression results are shown in column (1) of Table 6. The estimated results of the cnepu coefficient are still significantly positive, indicating that the estimated results are robust.

In addition, not only the uncertainty of economic policies will have an impact on the financialization process of enterprises, but also the economic policies introduced will change accordingly with the change of the degree of financialization of many enterprises, thus affecting the uncertainty of economic policies. Therefore, there may be a two-way causal problem. This paper adopts the following two methods to mitigate: First, the explanatory variables are delayed for one year to get L1cnepu and then regression is performed. The estimated results are shown in column (2) of Table 6, and the L1cnepu coefficient is still significantly positive. Second, the method of instrumental variables is adopted. Given the strong correlation between the cnepu value of an individual enterprise and the average cnepu level of enterprises in the region where it resides, and its financial investment behavior hardly affects the average cnepu level of other enterprises in the



current region, this paper takes the average *cnepu* level of enterprises in the same region and period as the instrumental variable. The regression results are shown in column (3) of Table 6, and the estimated coefficient is still significantly positive. The regression results in Table 6 above show that the estimated results remain robust after the mitigation of endogeneity by various methods.

Table 6. Endogeneity Test Results

VARIABLES	(1) Fin	(2) Fin	(3) Fin
<i>cnepu</i>	0.028*** (12.85)		0.017*** (23.41)
<i>L1cnepu</i>		0.026*** (18.42)	
<i>size</i>	-0.884*** (-7.16)	-0.949*** (-7.36)	-0.852*** (-6.97)
<i>lev</i>	-21.229*** (-41.83)	-20.494*** (-38.95)	-21.096*** (-42.10)
<i>lnage</i>	-5.153*** (-22.46)	-2.599*** (-8.33)	-5.177*** (-23.08)
<i>roa</i>	7.054*** (6.67)	7.440*** (6.91)	7.624*** (7.25)
<i>tobin</i>	0.444*** (7.31)	0.489*** (7.83)	0.466*** (7.73)
<i>grow</i>	-1.774*** (-9.49)	-1.575*** (-8.24)	-1.799*** (-9.67)
<i>cflow</i>	17.925*** (19.85)	17.932*** (19.27)	17.669*** (19.66)
<i>dual</i>	0.421** (2.34)	0.361* (1.95)	0.369** (2.05)
<i>big4</i>	0.367 (0.81)	0.575 (1.21)	0.344 (0.76)
Constant	51.412*** (17.11)	49.625*** (18.67)	51.761*** (20.61)
Observations	37,344	33,245	37,334
R-squared	0.177	0.118	
Number of <i>stkcd</i>	3,161	3,161	3,161
ID FE	YES	YES	YES
Year FE	YES	YES	YES
Year $\times$ Province FE	YES		

t-statistics in parentheses

\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ 

### 5.5.2 Replacing the Core Explanatory Variables of the Model

In the base model, the core explanatory variable is the annual arithmetic average (*Cnepu*) of the monthly data of Baker et al.(2019) Economic Policy Uncertainty Index. To ensure the robustness of the conclusion, this paper changes the measurement index: the index prepared by Davis, Liu and Sheng(2019) is used to measure economic policy uncertainty. Since the published data frequency is still monthly, this paper still uses the arithmetic average method to convert it into annual data as the measurement index of the core explanatory variable for analysis.

The test results calculated using the above method are presented in columns (1)-(2) of Table 7, where column (1) is the regression result without control variables and column (2) is the regression result with control variables. As can be seen from the table, the regression coefficients of the core explanatory variables in columns (1)-(2) are all significantly positive, indicating that the promotion of financialization by economic policy changes still holds after replacing the calculation method of the core explanatory variables as well as the use of the index data of Davis, Liu, and Sheng (2019), i.e., the original conclusion is robust.

### 5.5.3 Replacing the Explanatory Variables of the Model

Further, this paper replaces the explanatory variables of the model to start the analysis. In the benchmark model, the financialization of firms (*Fin*) is based on the behavioral perspective, i.e., the share of financial assets in total assets is selected as a measure. Therefore, in the robustness test

section, the behavior of net investment property is subtracted from the measure of corporate financialization. The specific measure of this variable is  $\text{Fin1} = \text{Financial assets for trading} + \text{net interest receivable} + \text{net dividend receivable} + \text{net available-for-sale financial assets} + \text{net held-to-maturity investments} + \text{net long-term equity investments}) \times 100 / \text{total assets at the end of the period}$ .

Columns (3)-(4) of Table 7 report the regression results of the model after replacing the explanatory variables, where column (3) is the regression result without control variables and column (4) is the regression result with control variables added. As can be seen from the table, the coefficient of Cnepu is still significantly positive, indicating that the positive correlation between economic policy uncertainty and financialization still holds and that the original conclusions are robust.

Table 7. Robust Type Test Results

VARIABLES	(1) Fin With new epu	(2) Fin New epu	(3) Fin1 Without nir	(4) Fin1 Without nir
epu	0.019*** (11.48)	0.059*** (26.95)		
cnepu			0.003*** (4.94)	0.019*** (21.68)
size		-0.855*** (-6.99)		-0.394*** (-3.26)
lev		-21.103*** (-42.12)		-20.695*** (-41.76)
lnage		-5.184*** (-23.12)		-5.591*** (-25.21)
roa		7.619*** (7.24)		8.729*** (8.39)
tobin		0.466*** (7.73)		0.555*** (9.32)
grow		-1.800*** (-9.68)		-1.783*** (-9.69)
cflow		17.681*** (19.68)		17.708*** (19.92)
dual		0.369** (2.06)		0.466*** (2.63)
big4		0.345 (0.76)		0.339 (0.76)
Constant	19.569*** (43.93)	49.862*** (20.01)	21.219*** (52.62)	43.121*** (17.39)
Observations	37,353	37,353	37,353	37,353
R-squared	0.028	0.151	0.024	0.148
Number of stkcd	3,161	3,161	3,161	3,161
ID FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

t-statistics in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

## 6. Conclusion

The global economic environment has become more complex and volatile over the past decades. Financial crises, trade frictions, political events, and other factors have led to increased uncertainty in economic policies. This uncertainty poses challenges to business operations and investment

decisions. The financialization of enterprises refers to the increasing reliance on debt and capital market financing rather than traditional internal financing. This trend is prevalent globally, and understanding the extent of corporate financialization and its trends is critical to understanding the stability of the economic system. Although several studies have focused on the relationship between economic policy uncertainty and corporate financialization, the relationship between the two remains inconclusive. Based on this, this paper takes Shenzhen and Shanghai A-share listed companies from 2003 to 2022 as the research object, takes the arithmetic mean of China's economic policy uncertainty index constructed by Baker et al. (2019) as the core explanatory variable of the model, and takes the proportion of financial assets held by firms in total assets at the end of the period as the explanatory variable, to empirically analyze the relationship between changes in China's economic policies and corporate financialization linkage, and finally draw the following conclusions. First, the regression of the benchmark model reveals that economic policy uncertainty has a facilitating effect on the trend of firms' financialization, and the conclusion remains robust after replacing the measures of the model's core explanatory variables and the explanatory variables. Second, after further dividing the nature of enterprises defined in the model into SOEs and non-SOEs, and into large and small enterprises based on the size of total assets about the median total assets of all enterprises, economic policy uncertainty has a more significant effect on the financialization of enterprises in non-SOEs and small enterprises than in SOEs and large enterprises.

## 6.1 Contributions

This study can make several theoretical contributions. In designing the model, this paper takes the individualized economic policy uncertainty indicators as the model-independent variables and adds fixed effects such as province and year, thus alleviating to a certain extent the endogeneity problem that may arise due to the omission of variables, making the empirical results more reliable, and expanding new ideas for the benign interaction between the financial industry and the real economy.

In terms of data selection, during the 2019-2020 period, the impact of the epidemic is reflected in all aspects of economic life from the macro-national economic field down to the micro-investment behavior of enterprises, with strong universality and durability. During this period, existing studies are limited by the availability of data, resulting in certain limitations of empirical evidence. In this paper, the data selection includes a total of twenty years of data from 2003 to 2022 and unifies the metrics of corporate financialization, which enriches the literature on corporate financialization.

In the part of heterogeneity analysis, this paper considers the differences in the degree of financialization from the perspectives of enterprise nature and enterprise size. By grouping the whole sample according to the nature and size of enterprises, the article conducts empirical tests to analyze the heterogeneous impact of uncertainty on the financialization of different types of enterprises, to provide theoretical support for the government and regulatory authorities to formulate corresponding policies to prevent the over-financialization of some enterprises as well as providing a possible path for enterprises to reduce their financialization.

## 6.2 Recommendations

The study's findings suggest that policy uncertainty significantly encourages real enterprises to increase their investments in financial assets, thereby amplifying the trajectory of corporate financialization and triggering concerns regarding industry hollowing. To counter this trend, several policy recommendations are proposed. At the national level, the government should maintain a stable policy framework to minimize policy volatility, collaborate with stakeholders to establish long-term policy objectives, establish a crisis management system comprising emergency fiscal measures and monetary policy tools, enhance government information transparency, and institute a continuous dialogue mechanism among the government, industry, and businesses for a more inclusive policy-making process. At the enterprise level, businesses should diversify their

operations to reduce reliance on capital markets or industries, develop a robust risk management system encompassing strategies to address policy uncertainty and strategic reserves, strengthen cooperation and communication with the government to better understand policy trends and seek government support, and optimize capital management to effectively address liquidity issues stemming from policy changes.

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