

The Reviews of Financing Constraint of Small and Medium-sized Enterprises in China

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Abstract. This paper explores the role, risks, and standardized development paths of shadow financing as an alternative financing channel for small and medium - sized enterprises (SMEs) in China. Through literature research, case analysis, and data analysis, it reveals the positive effects of shadow financing in expanding financing channels, meeting diverse needs, and improving financing efficiency. At the same time, it also points out potential problems such as high financing costs, regulatory arbitrage, and systemic risks. The research shows that shadow financing plays an important role in alleviating the financing difficulties of SMEs. The government really has to guide and regulate the financing of small, medium and micro enterprises. Our top priority now is to strengthen the regulatory framework first - the laws and regulations that should be supplemented should be made up quickly, and the regulatory loopholes should be blocked in time. However, don't patronize control. Financial innovation should be encouraged. The key is to find a good balance between innovation and risk prevention and control. Don't make it difficult for enterprises to finance, and don't let the financial market lay mines. To put it bluntly, this research wants to give the regulatory department a trick, not only to allow small, medium and micro enterprises to get money and develop smoothly, but also to ensure that the whole financial market is as stable as an old dog. To put it bluntly, it is a win-win plan.

Keywords: Shadow banks, Commercial Banks, Small and Medium-Sized Enterprise, Corporate Financing

1. Introduction

Small, medium and micro enterprises are the backbone of our national economy. Take a look at this data - more than 90% of enterprises in the country are small and medium-sized enterprises, and it is the main force to solve employment [1]. These business owners can not only come up with all kinds of innovative ideas, but also stir up the pool of market competition. It is no exaggeration to say that they are social stabilizers and economic engines.

However, when it comes to the old problem of financing, the savior of a wild road has emerged in the past two years - shadow banking. Although the name of this thing sounds mysterious, it is actually an extraordinary private financial institution. Unlike those large state-owned banks that wear suits and leather shoes, shadow bank lending is based on the rules of the world and relies on the word of mouth of acquaintances. Not to mention, this local method can flexibly transfuse blood

to small, medium and micro enterprises. Although the road is a little wild, it can really solve the urgent problem of many enterprises.

This paper mainly explores the key issue of shadow finance, which serves as an alternative financing channel for small and medium-sized enterprises in China. Through an in-depth analysis of the financing dilemma of SMEs, the rise and development of shadow financing and its multi-faceted impact on the financing of SMEs are elaborated. The study found that although shadow financing plays a significant role in broadening financing channels, it also has many hidden risks. The rapid growth of SNEs in China has been supported by alternative financing channels such as shadow banking.

2. Financing constraints of Small and Medium-sized Enterprises (SMEs) in China

2.1. The contribution of SMEs to the economic

In China, the definition of small and medium-sized enterprises is based on the "Standard Provisions on the Classification of Small and medium-sized Enterprises", according to the indicators such as employees, business income, total assets, and combined with the characteristics of different industries. For example, in the industry, the employees of less than 1000 people or the operating income of less than 400 million yuan belong to small and medium-sized enterprises, and according to the specific indicators, it is also subdivided into medium-sized, small and micro enterprises; there are also standards for industries such as retail [2]. Small and medium-sized enterprises are very common in the economy, accounting for the vast majority of the total number of enterprises, and are widely distributed in various industries.

In terms of economic contribution, the value it creates accounts for a considerable proportion of the gross domestic product, not only to promote economic growth, but also an important force for innovation, full of vitality in new products and new technologies, but also to provide a large number of jobs, active market competition

The innovation of small and medium-sized enterprises plays a key role in their own development and market competition. For SMEs themselves, innovation can help them break through the dilemma of homogeneous competition and create differentiated advantages by virtue of technology, product or service innovation, thus enhancing their market position. Innovation can also help them tap into potential demand and open up new market segments, such as cross-border e-commerce, breaking geographical restrictions and opening up new horizons for development [3]. At the same time, innovation can optimize management models and production processes, reduce costs and improve efficiency. In the face of external shocks, innovation results can also help SMEs better withstand risks and maintain stable development.

In the market competition environment, the innovation of small and medium-sized enterprises is equally significant. The results of innovation bring new products, new services and new business models, stimulate consumer demand, and make the market more prosperous and dynamic. Their innovation can also drive the technological progress of related industries and promote the upgrading of industries to high-end, intelligent and green. Moreover, the innovation of small and medium-sized enterprises breaks the monopoly trend of large enterprises, makes the market competition more full, and realizes the optimal allocation of resources. In addition, the innovation achievements of SMEs provide more cooperation opportunities for the upstream and downstream of the industrial chain, promote the integrated development of large and small enterprises, build a more complete, collaborative and efficient market ecosystem, and become an important driving force for economic development [4].

To sum up, SMEs play an irreplaceable role in employment, economic growth, innovation and market competition. However, despite their significant contribution, SMEs still face serious financing constraints as they grow, which will be explored in detail in the next section

2.2. The financing constraints to SMEs

Despite the important role SMEs play in the economy, they have long faced difficulties in accessing finance. Traditional financial institutions are often more inclined to provide loans to large enterprises, while small and medium-sized enterprises are difficult to obtain sufficient financial support due to opaque information and high risks.

There are three reasons why SMEs have difficulties in financing:

Firstly, small scale, poor stability, financial irregularities, lack of collateral and good credit history, so that financial institutions have concerns when lending [5].

Secondly, there is poor information with small and medium-sized enterprises, coupled with high loan costs and few products, and the enthusiasm for lending is generally not high [6].

Furthermore, it is the government and market environment, Policy implementation is discounted, capital markets are not friendly to SMEs, and social credit systems are inadequate [7].

The lending preference of traditional financial institutions is mainly to large enterprises, state-owned enterprises and enterprises or individuals with stable cash flow, sufficient collateral and good credit history [8]. This is because such entities are generally considered to have low operating risks and strong repayment ability, which can bring relatively stable returns to financial institutions, and the default risk is relatively controllable. At the same time, traditional financial institutions also prefer those entities that are in line with national industrial policies and in industries with good development prospects to reduce industry risks and policy risks.

SMEs have financing constraints, which means that they face many restrictions and difficulties in obtaining financial support. Due to their own characteristics such as small scale, weak risk resistance, insufficient financial standards, insufficient collateral, limited credit history, and information asymmetry with financial institutions, financial institutions raise financing thresholds to control risks, and external factors such as imperfect capital market and lack of targeted financial products, it is difficult for SMEs to successfully obtain sufficient and reasonable cost funds. Development is constrained by financing [9].

Under the influence of many factors, such as the enterprise itself, financial institutions, government and market environment, small and medium-sized enterprises are at a financing disadvantage in front of traditional financial institutions. Such financing constraints give birth to the development of alternative self-described channels such as shadow financing, which will be discussed in the next part.

3. The comparison of shadow financing and commercial banking

Shadow financing and traditional bank financing are two different financing methods. Traditional bank financing is mainly carried out through deposit and loan, while shadow financing provides financial support for enterprises and individuals through non-traditional channels. There are significant differences between the two in funding sources, loan approval, financing models and so on.

Table 1. Shadow financing and commercial banking comparison

Comparison Items	Shadow Financing	Traditional Bank Financing
Basic Concept	A credit intermediary system that is outside the scope of bank supervision and may trigger systemic risks, regulatory arbitrage and other issues. It covers various forms of non-bank financial institutions and innovative business models [10].	A financial service in which banks provide financial support to enterprises or individuals in the form of loans mainly based on funds sources such as deposits, in accordance with traditional credit policies and procedures. It is strictly regulated.
Source of Funds	Personal investors' wealth management funds, idle funds of enterprises, and funds raised from the capital market through asset securitization, etc.	Mainly public deposits (current deposits, fixed-term deposits, etc.), with a small amount of self-owned funds and inter-bank borrowing funds [11].
Loan Approval	Relatively flexible. It pays attention to the prospects of specific projects and the asset status. The requirements for collateral are relatively flexible, and the approval speed of some businesses is fast.	The process is strictly regulated. It focuses on financial status, credit records, and repayment ability. Complete financial documents are required. The requirements for collateral are high, and the approval time is long.
Financing Model	Diverse and innovative models, such as trust loans, entrusted loans, financial leasing, asset securitization, etc. Complex customized solutions can be provided [12].	Mainly standardized loan products, such as working capital loans, fixed asset loans, mortgage loans, etc. The model is relatively fixed.

4. Conclusion

This study delves deeply into the role, risks, and development paths of shadow financing as an alternative financing channel for small and medium - sized enterprises (SMEs) in China. The research indicates that SMEs play a crucial role in China's economic system. They not only account for over 90% of the total number of enterprises but also have an irreplaceable impact on employment, economic growth, innovation, and market competition. However, SMEs have long faced severe financing constraints. This is mainly due to internal factors of the enterprises themselves, such as small scale, poor stability, and financial irregularities, factors related to financial institutions like information asymmetry, high loan costs, and single - product offerings, as well as government and market environment factors including ineffective policy implementation, an unfriendly capital market, and an imperfect social credit system.

The emergence of shadow finance has alleviated the problem of financing difficulties for small and medium-sized enterprises to a certain extent. It broadens financing channels, meets the diversified financing needs of small and medium-sized enterprises, and improves financing efficiency. There are great differences between shadow finance and traditional bank financing in terms of funding sources, loan approval and financing models. Shadow financing has a wide range of funding sources, relatively flexible loan approval, and diverse and innovative financing models, which can provide more personalized financing solutions for SMEs.

However, it cannot be ignored that shadow financing also has many risks, such as high financing costs, regulatory arbitrage, and systemic risks. These potential problems may pose a threat to the stability of the financial market. Therefore, in order to promote SME financing and the stable development of the financial market, it is necessary to guide the standardized development of shadow financing. Specifically, it is required to improve the regulatory system to ensure that shadow

financing activities are carried out in an orderly manner within the regulatory framework; to perfect laws and regulations to clarify the rights and obligations of all parties involved in shadow financing; and to strengthen financial innovation and risk prevention to balance the relationship between financial innovation and risk control.

In conclusion, shadow financing is of great significance for SME financing, but it is urgent to standardize its development. Through the efforts of multiple parties to guide the healthy development of shadow financing, it will provide more powerful financial support for SMEs and promote the sustained and stable growth of China's economy.

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