

ASSESSMENT STUDY OF THE ROLE OF THE CHINA GOVERNMENT IN THE FINANCING OF SMALL AND MEDIUM-SIZED ENTERPRISES

LI XIANG JU^{*}, ZERAIBI AYOUB^{**}, SUBHADEEP MUKHERJEE^{***}

ABSTRACT

The purpose of this study is to highlight and then provide the solution of financing barriers for (SMEs) of China as they are the backbone for open markets. Small and medium-sized enterprises act as a catalyst for economic growth but on the other hand lack of finance slower down operational activities of (SMEs). This study attempts to find out the most important constraints faced by Chinese (SMEs). Field research and descriptive analysis are used in order to identify main constraints in terms of finance faced by Chinese (SMEs) in this research. On the other hand different the role of different credit institution also analyzed in the research. Based on our analyses we suggest that financial institution are capable to bring financial credits innovations for (SMEs), thus government should guide them properly. It is necessary that public and private financial institutions develop a single financing framework which helps to reduce financial constraints for (SMEs)'s, further more, it is also a great need of multi-level credit guarantee system for (SMEs) for tackling down their day to day business operations.

KEYWORD: China, Smes, Loan, Guarantee, Funding.

INTRODUCTION

Small and Medium Enterprises (SME) are the main contributors in the national economy, and they represent a large proportion among the total number of companies. On other hand, macroeconomic development of small and medium enterprises is self-optimistic, due to the fact the traditional financial institutions are more inclined to provide financial support for large companies. As SME's are considered as backbone of economy but every country has its

own definition of what it considers small and medium enterprises according to their economic culture. In the United States, there is no clear way to identify SME's. The European Union provide a concept that, a small and medium-sized company with fewer than 50 employees. It is said that small businesses are responsible for promoting innovation and competition in many sectors of the economy due to existence of competition in market.

* Professor-School of Economics and Finance- Xi'an Jiao tong University, Xi'an Shaanxi -710061.

** PhD researcher, School of Economics and Finance, Xi'an Jiao tong University, Xian Shaanxi 710061.

*** Assistant Professor, Department of Management Studies, National Institute of Technology Silchar, India.

Correspondence E-mail Id: editor@eurekajournals.com

Recently, successful economic growth pattern indicate that small projects are the main pillar of economic growth, thus they increase overall production, which directly increase exports and creating new employment opportunities, particularly in rural areas and remote areas. (Latha and Muthy, 2009). The importance of SME, cannot be ignored, as they exist in developing countries as well as developed countries, as (Al Mahrouq, and Magablah 2006) in their work they indicate 50% to 60% of world labor force employed in SME 's, furthermore SME's help to create job opportunities, and increase exports as a result, it help to improve overall balance-of-payments deficits for the developing as well as develop countries. The SME contribute approximately 46% of global GDP, 65 % in European GEP and 45% of United States GDP, which indicate their existence as backbone and important pillar of economy (Afanah & Abu Aid: 2004).

As SME's are major contributor in economic growth and in developing countries majority of the population rely heavily on individuals or small businesses as a source of income (Prasead and Tatam, 2009) and therefore it is necessary to handle all the hurdles efficiently which directly influence on working and existence of SME.

In recent period of globalization, the contribution of China in world economy cannot be ignored, due the fact the SME's plays a vital role in economic growth of China. SME have made significant contributions to the overall level of employment and lively-hood for the people (Heino & pagan: 2001). Despite the fact, the rapid growth of SME in emerging markets, there is always question arises how these SME are financed, and only few researchers have studied that particular phenomena because the culture of business finance is heterogeneous in nature different countries possess different financial institutions with different mechanism of operation and factors, moreover sometimes

these factor become serious constraints in terms of availability of capital for SME's, therefore the aim of this study to highlight the issues regarding availability of finance for day to day operations of SME's. Although SME's financing remains one of the most interesting areas among the researchers in China (Wu et 2008), and interms ofempirical analysis, SMEfinancing is one of the hardest areas for research (Berger and Udell, 1998).

After the revolution 1978 in China, State own enterprises decline and SME's formation showed upward trend. The role of small and medium-sized enterprises in the economic growth of China is impressive. However, There have been bottlenecks and obstacles to the further development of SMEs, particularly in the area of financing mechanism for SME's.

SIGNIFICANT OF STUDY

The significance of this study is to highlight and then provide the solution of financing barriers for SME of China as they are the backbone for open markets. Small and medium-sized enterprises act as a catalyst for economic growthbut on the other hand lack of finance slower down operational activities of SME. This study attempts to find out the most important constraints faced by Chines SME. Field research and descriptive analysis are used in order to identify main constraints in terms of finance faced by chines SME in this research. On the other hand different the role of different credit institution also analyzed in the research.

RESEARCH QUESTIONS

Based on above discussion following research questions are formulated.

1. Do financing institutions provide required funds for small and me medium enterprises?
2. Do the government and Chinese financing system support the small and medium and medium enterprises?

3. What is the relationship between the bank size and (SMEs) lending under the context of the bank?

HYPOTHESES OF STUDY

Based on the problems of the study, the research has developed the following study hypotheses:

- H0 Small and medium enterprises in China have no problems in terms of financing
- H1 The Chinese government plays a key role in financing small and medium-sized enterprises
- H2 Small and medium enterprises in China face a problem with the warranty process during the loan process

RESEARCH METHODOLOGY

- H3 Banks and the government are contributing to optimal, risk-free financing for small and medium-sized enterprises.

LITERATURE REVIEW AND THEORY

The theoretical basis of SME's financial support is capital structure theory and SME's financial theory. The earlier research is Money Multiplier theory, that the enterprise investment and financing policy independent, the company financing structure does not affect the market value (Franco Modigliani and Merton Miller, 1958), MM theory revision, tax shield, and individual income tax can be offset, so the capital structure does not affect the value of the company under the equilibrium Conditions (Miller 1977) after The trade-off theory relaxes some assumptions about how much debt financing the company chooses and how much equity financing it uses to balance costs and benefits (Robichek Meyer 1966).

The principal-agent cost should be borne by the shareholder external Equity, Because of the different influence of the operators,

Shareholders, and creditors, only the debt growth pattern in the capital structure can increase the shareholder value (Jensen & meekling, 1976). The financial theory of small and medium-sized enterprises is based on credit rationing theory and relationship banking. Credit rationing theory refers to asymmetric information, The bank will imply the loan interest rate rationing system, in order to avoid moral hazard and adverse selection, When facing the demand of excess loan, make it difficult for (SMEs) to obtain the corresponding financing (Stieglitz weiss, 1981).

The theory of relational banking suggests that large financial institutions generally serve large companies.

While the financial institutions of medium-sized companies always establish a cooperative relationship with (SMEs) easily from asymmetric information, therefore, it will help solve the problems of financial difficulties resulting from the information of asymmetries of the financial institution and (SMEs) (Berger, 1998). In China, The main research on Financing (SMEs) Started more slowly. Some research suggests that the fundamental way to eliminate the economic and financial difficulties of (SMEs) is to create the external environment of the endogenous growth financial system (Zhang Jie, 2000).

Definition of small and medium enterprises in China Not only, The university accepted the definition of (SMEs). In some employees the total assets of sales revenue total assets, Conduct and research conducted in different countries. In practice, It can be found that several meanings apply to different contexts (Robert Kozak, 2007) As Macqueen (undated) definition of (SMEs) in the case of sustainable development as those companies with less than 100 employees without minor cut, In another report, (Macqueen2008) defines small and medium-sized enterprises as commercial operations designed to benefit from activities

linked to the forest employed by 10 to 100 full-time employees, Or between \$ 100 and \$ 30 million per year, or an annual round of consumption of wood (3000 and 20000m³)

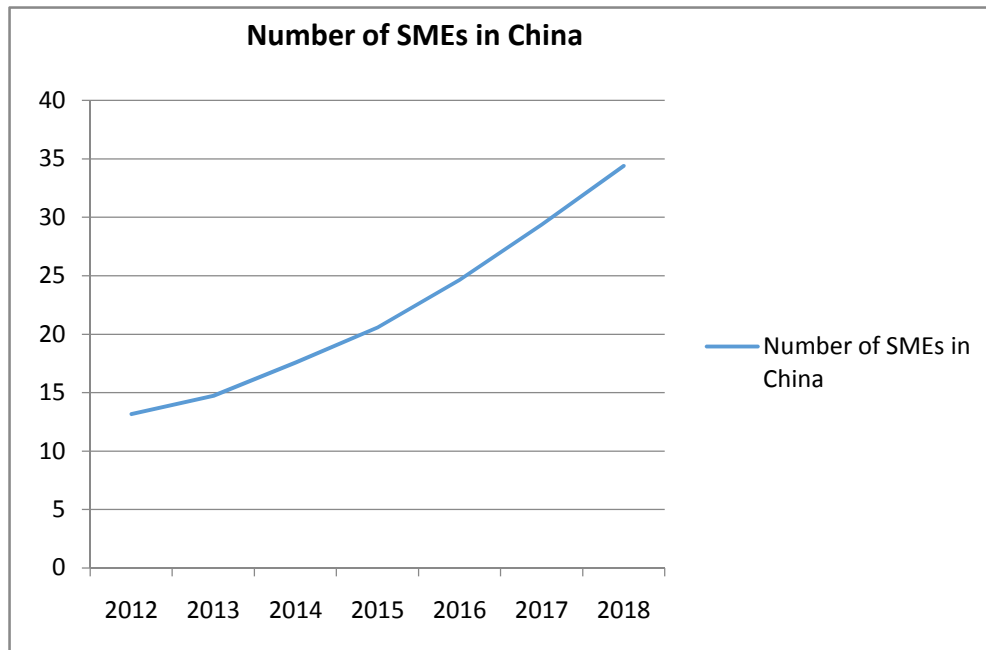
Classification criteria for large and small and medium-sized enterprises China's SME policy are increasingly sensitive to the need for SME development. Policies include intervention in financial markets to help local governments provide financing and programs for the development of (SMEs). September 1999: A series of measures were formulated to restructure SM department. These include the facilitation of the withdrawal of groups and non-viable small enterprises, As well as the establishment of business development services to assist (SMEs) in information consulting, marketing, financing, Credit guarantees, Technical support, and services. In June 2002, the (SMEs) Promotion Law was enacted, Which emphasizes fair treatment and the "field of equal competition of (SMEs)". In the financial sector, a support measure for (SMEs) is the establishment of a maximum limit for loan rates for (SMEs).

This has a perverse effect Since it reduces the incentives for banks to grant loans to small and medium enterprises (Wako2004), Which raised the ceiling of loan rates to (SMEs) in December 2000. Promote the healthy development of the pyres.

The State Council issued a circular on the dissemination and publication of a series of state economic policies to encourage and promote the development of (SMEs) in August 2000. Small and medium-sized enterprises

cannot operate in this context, let alone expand their activities. Operations, since (SMEs) have a low performance, fundraising.

But all the universally accepted reasons are not analyzed from an incomplete point of view, so this study finds the following reasons: (SMEs) do not understand the relevant laws and regulations: several surveys have shown that (SMEs) are not familiar with the policies of government financing. and regulations in 2012, and the Chamber of Commerce and Industry of Shanghai has conducted a study on small and medium enterprises. Studies have shown that 73.1% of the companies surveyed are "unknown or blind" policies that provide countries with 62.7% of those receiving information services. Small and medium-sized companies are not familiar with the relevant laws and regulations, therefore they cannot expand operations. This also shows that small and medium enterprises in the protection of their rights and interests do not have good legal protection. Since many preferential financing policies require that (SMEs) declare to the relevant authorities and comply with the relevant procedures, In the case of a weak legal conscience, (SMEs) always maintain their own interests in a relational manner, Instead of the law in the interests economic consequences of the infringement. I do not know about me. The survey of small and medium enterprises conducted by the Zhejiang Province and the Ministry of Commerce shows that more than 70% of the owners have secondary or lower courses, And the Chongqing Industry Association investigates the owners of small and medium enterprises Business.



Resource: statistics, the statistics portal, <https://www.statista.com/statistics,14.30>

Figure 1. Number of small to medium-sized enterprises in China from 2012 to 2018

FINANCING SITUATION AND PROBLEMS OF SMALL AND MEDIUM ENTERPRISES

Small and Chinese businesses mainly apply to the internal and external funding channel, in which external financing can be divided directly and indirectly, Just as shown in Figure 2. Chinese small and medium-sized enterprises mainly use internal financing. Statistics of the research report of the operation and financing difficult situation of small and medium-sized enterprises the questions jointly by the National Development School of the Peking University with the Aliabad group showed that the Small and medium-sized enterprises in China rely mainly on international money reassignment and external borrowing the research data in this report have concluded that the main source of capital that finances (SMEs).

Any business model has its limits, Small and medium-sized enterprises are no exception according to the survey the average lifespan of China's development is about 3.6 years essentially funding is a major constraint.

HIGH FINANCING FREQUENCY AND SMALL LIMIT

China small and medium enterprises have a lower threshold m operate flexibly and have small scale m thus the amount of corporate financing will not be particularly large and the frequency of corporate financing is relative high, compared to large The long-term financing and difficulty of lending (SMEs) with a large amount of debt have increased in nature.

Hard to get loans in China, most of the small and medium enterprises do not have credit ratings, relevant enterprises refer to the M-guarantee to reduce risks, banks are more willing to landsafely.

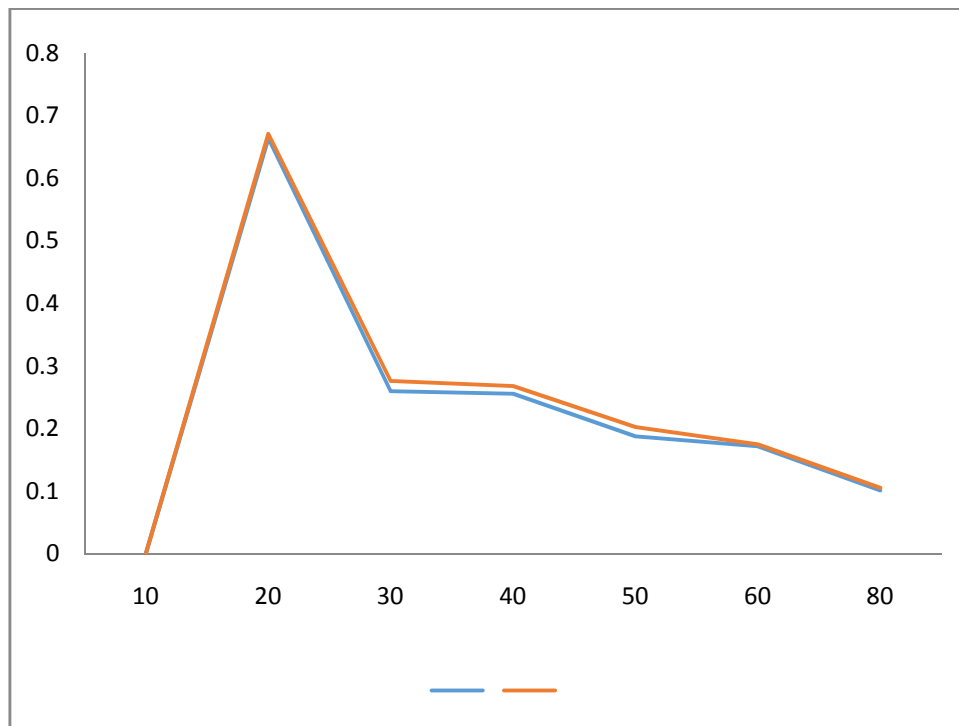
Single financing mode in comparison with foreign countries m China m small and medium enterprises are more inclined to conduct indirect financing, they rarely conduct direct financing. This often leads to the short supply of credit.

Because of adverse conditions of small and medium enterprises, Higher financing may not

receive a loan from the SME bank sometime in order to raise funds, Many business operators choose other ways to finance. The financing of these systems shore up the coast so far, the bank which furthers financing of (SMEs) exceeds riparian growth.

As new avenues of financial leasing trade financial leasing, It can be deemed as the traditional rented, all-organic combination like trade and financials, A financing bank loan and Third Street post-capital markets. Financial

leasing is the dual function of financing and financial commodities, Especially in June 2010 has its unique advantages in serving the real economy in services to small and medium enterprises, Chinese financial authorities issued and completed small and medium enterprises financial services work Some opinions, For the development of financial leasing businesses, Can perform the task of delivering full performance financial leasing to foster the development of small and medium enterprises effectively.



Source: Shan Tong, Credit constraints on (SMEs): evidence from China, p13 Thesis Master of Public Policy,

Figure 2. Reasons Why Firms Do Not Apply for Bank Loans

Table 1. bank Loan Status by Region

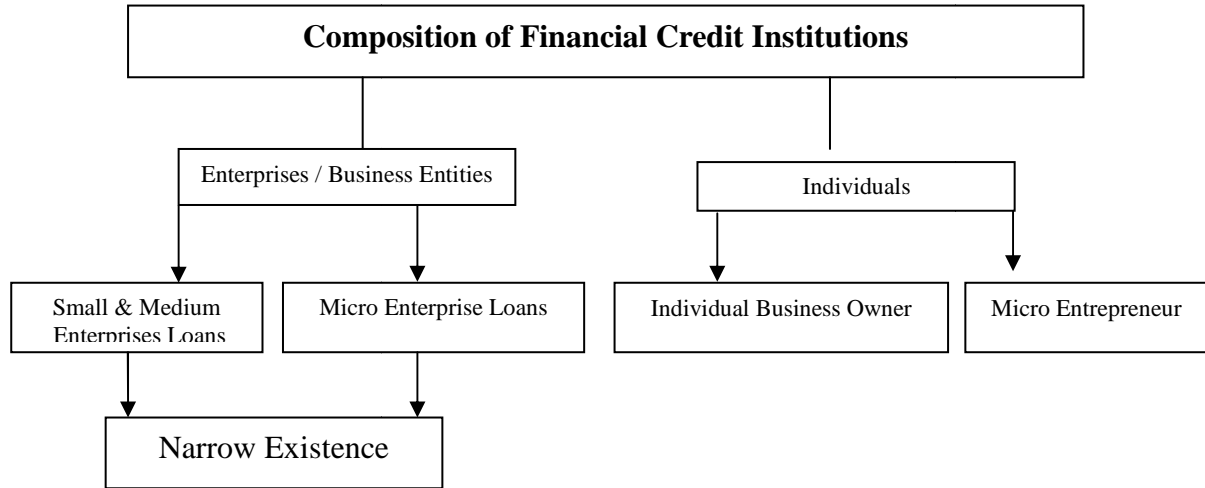
Region	Number of Firms	Denial Rate
Northwest	136	30.1%
Southwest	196	28.6%
Northeast	96	38.5%
Central	195	36.4%
Coastal	126	5.6%
Total	749	

Source: Shaun Tong, credit odds-on (SMEs): Evidence from China, P20 Public Policy, thesis master of the Graduate School of Arts and Sciences of Georgetown University, 2013.

**SMALL AND MEDIUM ENTERPRISES
 LOAN TYPES AND COMPOSITION**

The financial services and the loan services very important major types and in the development

of (SMEs) financial services provided by financial and banking services, Especially in financial institution, and the (SMEs) loan types are further specified.



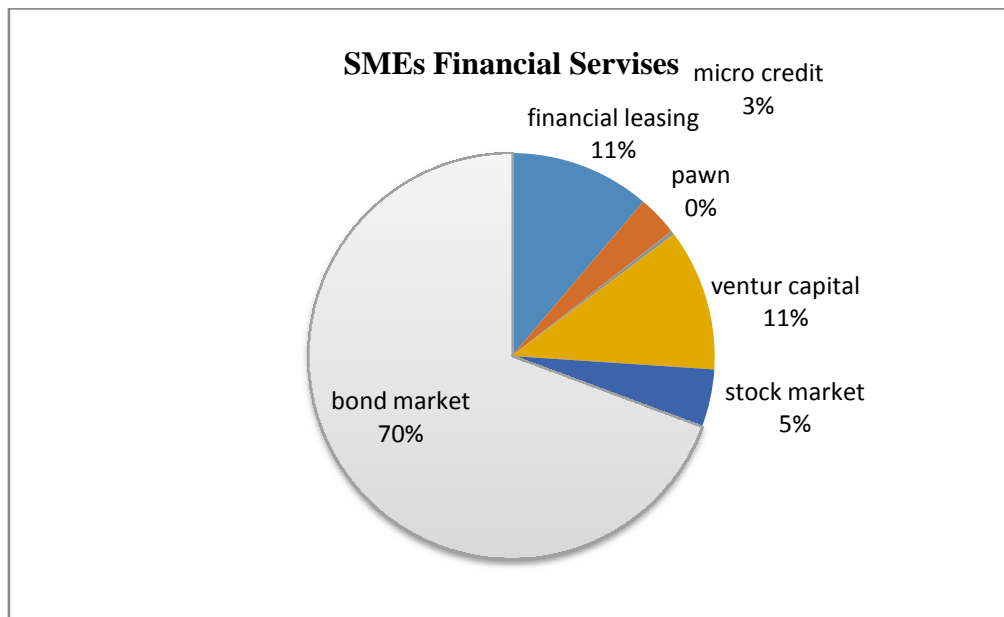
Resource: Performed by author .based on data from China (SMEs) Finance Report 2017.p5. www.smefinance forum.org

Figure 3.Composition of banking financial Institution (SMEs) loan Types

(SMES) FINANCIAL SERVICES

The figure 1/2 show the scale of (SMEs) financial service 's provided by different major supply agents in the (SMEs) financial system. From the figures we see and understand the

role of financial institution were the biggest financial for the (SMEs) and show the financing scale of one hundred billion (financial leasing, Venture capital), Company the balance of the (SMEs) pawn, not eight and still not reach the Required level and the Optimal level.



Resource: Performed by author .based on data from China (SMEs) Finance Report 2017.p11.p12. www.smefinance forum.org

Figure 4.Small and medium enterprises financial services

Table 2.Overview of (SMEs) Financial Service (2016)

Financial Services	Service s Average (billion CNY)
financial leasing	2930
microcredit	833.65
pawn	85.85
venture capital	2938.75
stock market	1209.3
bond market	18078

Resource: Performed by author .based on data from China (SMEs) Finance Report 2017. .p13. www.smefinanceforum.org

EXCELLENT GENERALIZATION OF THE (SMES) LOAN COMPOSITION RATIO

From a structural standpoint, (SMEs) was released by the bank finance in the balance of loans The bodies of 2016 were (SMEs) loans in a narrow sense released in the form of 81.66% of those Enterprise loans, This ratio was slightly

increased compared with 79.7% in 2015. 18.34 % left Released in the form of a personal loan, Decreased by 1.96% compared to that of 2015 Which Small business loan, (SMEs) owner personal operational Loan, Had the highest ratio Lowest ratio. The ratio of various loan balances was generally consistent with that in 2015.

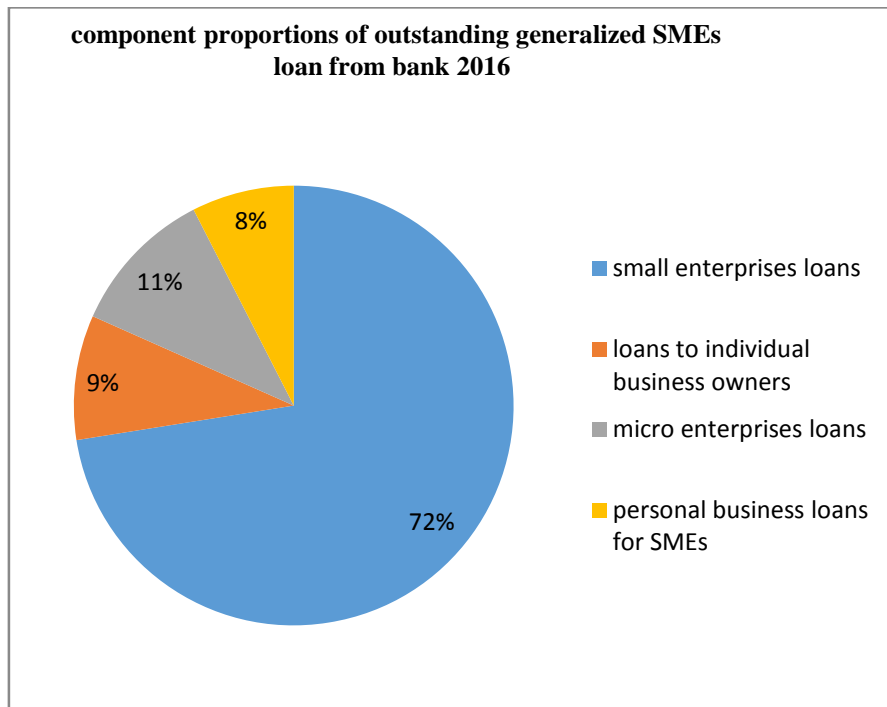
Table 3.Component Proportions of Outstanding Generalized (SMEs) Loans from Banking Financial Institutions (2016)

Component Proportions of Outstanding Generalized MSE Loans from Banking Financial Institutions (2016)	
small enterprises loans	72.49%
loans to individual business owners	9.17%
micro enterprises loans	10.82%
personal business loans for SMEs	7.52%

Resource: Performed by author .based on data from China (SMEs) Finance Report 2017.p5. www.smefinanceforum.org

In terms of growth rate, the balance of the narrow-sense (SMEs) loans increased by 16.6%, Which was higher than the growth rate of 13.82 % of the balance of the Large-sense (SMEs) Loan. The growth of The balance of the (SMEs) loan released in the form of personal loans was relatively slow, In which the balance

of the Individual commercial loans increased by only 2.18%, which decreased by 7.62% compared to 2015 of the four types of loans, the balance of loans to micro-enterprises experienced the fastest growth, To 27.68%, or 9.18% more than 2015.



Resource: Performed by author .based on data from China MSME Finance Report 2017 .p5. www.smefinanceforum.org

Graph 4.Component proportions of outstanding generalized (SMEs) loan from bank 2016

CONCLUSIONS

Small businesses are the driving force and engine of economic growth and development in the South Asian region and China. Thus concerted efforts through government, policy makers, institutions, and individuals are necessary, particularly in the direction of the development of small business sectors, gender in the area of small business with reliable and affordable credit standing. In recent years savings and lending companies are helping the system continues to provide SMEs with access to credit for the savings of small businesses and provides an alternative way to conserve the steps and flows that borrow traditional financial requirements is also cumbersome and discriminatory.

Survey finds that high-interest rates are the demand for small business owners by a majority of small business loans, banks were willing to access the loans, but due to high demand interest rates, they cannot apply F-

bank claims or loans from banks Use most of the business earnings to resolve high-interest debt, and have been granted loans, leading to the collapse of most small businesses, Most small businesses in municipalities that are unable to access loans from various banks depend on the relevant interests and will help relative.

The amount generated is not enough to finance most small businesses. This high-interest rate is highly dependent on availability and accessibility to the founding at a reasonable or favorable rate, so it has a prior effect on the development and growth of the municipality's business.

RECOMMENDATION

1. Banks need to create common funds by the government for small businesses.
2. Establishment of common funds by the government for small businesses there should be a national policy of small

business, where the government educates the owners

3. Small business management will grow into many big industries in the near future to maintain their business for efficient and effective financial management.
4. A key issue is determined by the Government establishing institutions to guarantee loans granted to small business entrepreneurs funding.
5. It is deeply important to relieve the collateral needed for the loan and to urge the lending institution to accept the project itself as collateral without the need for any other warranty.

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