

# *The Predicament of Capital Financing in the Initial Stage of International Trade Type Companies*

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**Abstract**—With the economic globalization and China's entry into WTO, China's international trade is also developing vigorously. However, China's international trading companies, especially in the early stage of their start-up, are still faced with many difficulties in capital financing. The main manifestation is that capital and overall strength are weaker than those of developed countries such as Europe and the United States. In recent years, with the change of the world economic and trade policy pattern, the risk of international trade financing has an increasing impact on the real economy, resulting in more and more obstacles to capital financing in the start-up stage of China's international trading companies. Many start-up financing problems lead to capital shortage, which restricts the healthy development and growth of enterprises.

**Keywords**—international trade; capital financing; credit system; new entrepreneurial enterprise; predicament

In the early stage of the establishment of international trading companies, banks and companies should clarify their responsibilities and roles in law, constantly regulate their behaviors, establish a reasonable and scientific operation process and contract model, and do their best to reduce risks in trade during the financing process.

## I. FINANCING DIFFICULTIES FACED BY INTERNATIONAL TRADING COMPANIES IN THEIR INITIAL STAGE OF ESTABLISHMENT

### A. *Financing Methods are Relatively Simple*

Since the financial crisis, global trade has gradually become large-scale and complex, and the trend of diversification in the field of trade financing is obvious. However, in terms of practical operation, China's new enterprises still take the traditional financing mode as the main form in terms of financing and combine the L/C settlement and financing, with few varieties and single functions.<sup>[1]</sup> Due to the large foreign trade export enterprise is the core of the commercial bank customer base, and new ventures are mostly small and medium-sized enterprises, is limited by its own strength, in the international market competitiveness is weak, on trade in order to get the order will be on the financing way concessions to trade partners, to give greater concessions and preferential treatment, these discount to the financial cost of start-up and liquidity brings about adverse effects. Despite the emergence of a number of joint-stock Banks in recent years, they are short in development, short in capital and small in scale, making it difficult for them to play a substantive role in international financing. New enterprises should timely

understand the financing preferences offered by Banks, constantly improve themselves, learn relevant financing knowledge, find suitable financing methods, improve the transparency of information and credit credibility, strengthen credit management, and improve indirect financing.

### B. *Financing Process in a Weak Position*

Most of China's new enterprises have not formed a scale of operation, and the shortage of capital restricts the development of enterprises. In the process of bidding for many projects, enterprises lack market competitiveness and miss many opportunities for development. For example, a new company was founded in 2015, after more than a year of hard work, the annual output reached more than 50 million Yuan. Since 2016, the company has increased capital investment and expanded the scale of production and operation. However, in just half a year, due to financing difficulties and bottleneck problems caused by its own strength, the capital capacity of this enterprise was completely hollowed out and its development plummeted. The situation of this enterprise is very common in China's new enterprises at present. How to reverse this weak position has become the top priority for new enterprises to solve. Enterprises should improve and perfect diversified financing mechanism, strive for government support, and improve enterprise system. In addition, we should improve the commercial financing mechanism for new enterprises. The so-called commercial financing, in fact, is to take Banks as the main target of raising funds. Financial institutions, by analyzing the actual situation of new enterprises, formulate targeted financing products and methods, adjust audit standards appropriately, enhance their service quality, and meet the needs and desires of new enterprises for funds to the greatest extent.<sup>[2]</sup>

### C. *Lack of Professional, Comprehensive Business Personnel*

Many international trade businesses of foreign enterprises are developed through channels developed by highly professional employees, so their development is full of vitality. Most of the newly-established enterprises in China are crossing the river by feeling the stones. They lack experience in expanding financing channels and are extremely short of professional, comprehensive and high-quality business personnel. First of all, those who are proficient in international trade will take the prospect of the enterprise and personal salary as the main measurement standard when choosing a career, while the new enterprises can't meet their requirements in these aspects, at least not for a short time, so that professionals will often have concerns when choosing a career. Secondly, there is

a lack of communication between new enterprises and Banks. When new financing methods or means appear, new enterprises are often not aware of them or Banks do not take the initiative to promote them. Therefore, new enterprises are naturally at a disadvantage in the development of international trade. Thus, new enterprises should pay attention to the cultivation of international trade finance professionals.

Firstly, staff of new enterprises should attend professional knowledge education and training, constantly enrich themselves, increase knowledge reserve, master relevant business of bank promotion, and find the best way to develop the company through understanding commercial Banks and relevant policies.

Secondly, business personnel should pay attention to the summary of relevant aspects of trade financing practices in their daily work. In particular, they should strengthen their understanding of the market, collect and analyze the most cutting-edge information of the international trade market, better control the market trend, and make expectations on the market trend, so as to formulate business strategies. In addition, the staff must constantly enhance the ability to observe the market and commodities, timely detection of hidden dangers.

## II. FINANCING DIFFICULTIES OF INTERNATIONAL TRADING COMPANIES IN TERMS OF FINANCIAL SERVICES AT THE INITIAL STAGE OF ESTABLISHMENT

### A. Trade Finance Approval Lacks Standards

At present, commercial Banks equate the examination and approval of trade financing business with the examination and approval of general loan business and ignore the characteristics of trade financing business. In the financing process of new venture enterprises, if the bank equates its business with ordinary loan processing, the approval time will be much higher than the expected time, thus delaying business opportunities. Take secured loan as an example, in addition to requiring new enterprises to have a letter of credit issued by the bank as the basis, but also to have a large enterprise to confirm the effective guarantee, through the examination and approval of funds can be obtained, which will be completely regarded as working capital loan management. However, these guarantees require new enterprises to find enterprises or assets that meet the guarantee conditions by themselves, which will inevitably take some time. Banks also need to examine whether the enterprises or assets that are guaranteed meet the requirements, and whether the approval procedures are needed in the process, etc., all of which extend the financing time. For start-ups in urgent need of capital, business opportunities may have been delayed when they get it, so it is necessary to establish targeted approval standards. Firstly, different trade financing is classified according to the size of risks, which can be divided into low-risk, lower-risk and general risk businesses and new product businesses. Secondly, attention should be paid to low-risk businesses, because low-risk businesses are likely to bring about risk losses, which are easy to prevent. Strengthening the control of low-risk businesses can improve the security of enterprises. The business with lower risk means that the reviewer signs the authorization after the audit, and then the business can be operated. For general risk business, it shall be agreed by the international trade finance review and

adjudication board after the review, and then authorized personnel of the international department to enter into the operation and implementation stage. The trade financing staff of the company shall monitor and assess the risks of the products in trade to different degrees, and make detailed and in-depth assessment and assessment of the specific operation process and relevant laws and regulations, so as to determine the risk level of the business. Only in this way can the final operation be carried out.

### B. Financing Threshold is High, and Authorization is Difficult

Generally speaking, due to the consideration of risk consciousness and crisis consciousness of commercial Banks, new enterprises are defined as weakened loan objects. Although most commercial Banks have relaxed financing conditions for new enterprises to some extent due to the support of the government, the degree of relaxation has not met the requirements of financing for new enterprises and has not fundamentally solved the financing difficulties of new enterprises.<sup>[3]</sup> Compared with large enterprises, new enterprises face greater risks, and Banks are reluctant to lend money to such enterprises. Even if they do, the loan interest rate is much higher than that of large enterprises. Moreover, Banks have to conduct strict examination and approval of new enterprises and in the process of examination and approval, new enterprises often lose business opportunities.

Banks' differential treatment of new enterprises leads to higher costs, smaller profit margins and difficult survival. To a large extent, the difficulty of authorization for new enterprises is due to their lack of sensitivity to risk and crisis awareness, and the limitations of business mode, which lead to different treatment of new enterprises by Banks. Therefore, in order to obtain authorization, new enterprises must be supported by the improvement of their own strength and quality. Generally speaking, in the process of assessing loan matters, Banks should first analyze and study the safety of assets. Specifically, it is necessary to see whether the lender can make a loan. Only when the lender is thoroughly analyzed and studied in detail can the bank agree to the loan application of the company. Therefore, managers of new enterprises should set out from the enterprise itself to establish a good bank reputation and eliminate false information. China's new enterprises should also pay attention to the information disclosure process, through comprehensive and objective information disclosure, so that the outside world to know more about the development of enterprises, these information will be the basis for bank loans, so as to reduce the bank's distrust of enterprises, the establishment of credit transactions based on good faith.

## III. FINANCING DIFFICULTIES OF INTERNATIONAL TRADING COMPANIES AT THE MACRO POLICY LEVEL IN THE EARLY STAGE OF START-UP

### A. The Construction of Credit System is not Mature

Mature credit system is extremely important and necessary for both new enterprises and Banks, but at present, China still does not have a complete credit system, resulting in loopholes for new enterprises in international trade activities to be drilled, market dishonesty is often prohibited. At the same time, as a lot of information of enterprises cannot be obtained through public

channels, it is difficult for Banks to assess the credit rating of some enterprises, especially those with little business dealings with them. The imperfect credit system, the lack of credit rating system for new enterprises, and the fraud of new enterprises in financial statements make it difficult for Banks to make correct credit evaluation and prevent the default and default of new enterprises in the credit process.

Relevant departments should enhance the awareness of credit and improve the credit evaluation system. First of all, as far as the new enterprises themselves are concerned, they should consider enhancing their awareness of credit, and establish a common credit relationship with Banks in the banking system by improving their financing credit rating, strictly standardizing the relevant systems of enterprises, writing real financial statements, transparent operation and management and other real and effective ways. Secondly, to strengthen the construction of enterprise credit system, the present stage our country enterprise information transparency is low, whether it is a financial institution, or government department, not to a comprehensive understanding of enterprise development, which is caused by corporate fraud or information opaque, is also directly contributing to the development of new ventures have been restricted by financial institutions and obstacles. Although financial institutions constantly improve the data of new enterprises and disclose the credit status of new enterprises through various means, they still cannot meet the current demand. In this case, a sound credit evaluation system becomes extremely important. The smooth flow of information can't only restrict the business activities of new enterprises, but also enable the financing behavior of new enterprises to run smoothly. By analyzing and studying the internal data and information of the company, the bank will grade the credit of the new enterprise and determine the amount of loans and financing available for each grade.<sup>[4]</sup> Enterprises with high credit can get more preferential conditions, which can also encourage the development of the company from the side.

#### B. The Legal Environment is not Perfect

With the continuous development of the international market, the global trading system is gradually formed, and relevant systems and laws are also established with the market. In view of the current situation of China, many operating methods and relevant systems are not only behind the world level, but also have some conflicts and contradictions with the world trade.

For new enterprises, only through international trade, clear trading rights and obligations, can contradictions be reduced. In addition, some terms and relevant practices frequently used in global trade are not provided with corresponding provisions in the relevant laws of our country. As a result, new enterprises have no laws of their own country to refer to in participating in global trade, and are at a disadvantage in the end. In order to enable new enterprises to take a place in international trade financing and obtain more funds, China should improve relevant laws on international trade financing and make innovations and improvements in combination with the international market system. No matter how strong an enterprise is, it cannot be above the law. In the process of

financing, Banks and companies should clarify their responsibilities, clarify their roles in law, constantly regulate their behaviors, establish a reasonable and scientific operation process and contract model, and do their best to reduce risks in trade. Banks and new enterprises should conduct in-depth research on relevant laws and regulations at home and abroad, find out the differences between international practices and Chinese laws, and formulate targeted operational plans to constantly improve and perfect legislation.<sup>[5]</sup>

This paper systematically analyzes the status of capital financing in the early stage of international trading companies and summarizes the difficulties of capital financing in the early stage of international trading companies. In the early stage of entrepreneurship, the author puts forward Suggestions to solve the problems from the perspectives of his own level, financial service level and macro policy level. Start-ups not only need to improve their technologies and mechanisms, but also need to adjust and change their financing models. Different ways of rectification are used to alleviate the financing difficulties of international trading companies, so as to ensure that international trading companies can tide over difficulties smoothly and play their social and economic roles.

#### IV. CONCLUSION

Enterprises should improve multichannel financing mechanism, obtain professional and comprehensive business personnel, strengthen credit management, and find suitable financing methods.

Managers of new enterprises should set out from the enterprise itself to establish a good bank reputation, attach importance to information disclosure procedures, let the outside world to know more about the development of enterprises, reduce Banks' distrust of enterprises, and establish credit transactions based on good faith.

The sound credit system of the government at the macro level enables start-up trading companies to obtain the approval of high credit rating and issue financing loans through their good credit management. Banks and companies should clarify their responsibilities and roles in law, constantly regulate their behaviors, establish a reasonable and scientific operation process and contract model, and do their best to reduce risks in trade.

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