

A STUDY OF CREDIT RISK OF CHINESE SMALL AND MEDIUM-SIZED FOREIGN TRADE ENTERPRISES IN OVERSEAS MARKET DEVELOPMENT : A CASE STUDY OF X GROUP

¹Fabin Liang

Rangsit University, Thailand

133034684@qq.com

Received July 10, 2022; **Revised** November 2, 2022; **Accepted** December 25, 2022

Abstract

Under the circumstances of fully open of China, in the face of monetary, foreign exchange, and credit risk, it is not a timely, accurate, accurate assessment method; therefore, in the process of development, small and medium-sized foreign trade companies need to build a scientific and reasonable export credit risk management system. The study mainly focuses on X group as an example. This paper analyzes the current situation of export credit risk management of small and medium-sized foreign trade companies, and then proposes corresponding solutions to the problems existing in the export credit risk management of small and medium-sized foreign trade companies.

Based on the documentary research method and case analysis method, this paper tries to carry out an analysis from the perspective of identification, assessment and management of export credit risks of small and medium-sized foreign trade enterprises in China's inland, and selects X Group as the case to explore the credit risks of small and medium-sized foreign trade enterprises in overseas market development. Moreover, this paper analyzes the credit risks of X market in overseas market development, and proposes strategies to deal with credit risks from three aspects: before, during and after the event, hoping to provide reference for the construction of credit risk control system and theoretical research of Chinese small and medium-sized foreign trade enterprises in overseas market development.

Keywords: Small and Medium-Sized Foreign Trade Enterprises; Credit Risk; Credit Risk Management; Competition

¹International Chinese College, Master of Business Administration, Rangsit University, Pathum Thani, Thailand

Introduction

The credit risk management problems of small and medium-sized foreign trade enterprises in China are becoming more and more prominent. China's small and medium-sized foreign trade enterprises in the lack of effective credit risk management theory support and implementation strategies, will inevitably bring adverse consequences to the survival and development of China's small and medium-sized foreign trade enterprises. Therefore, based on the above background, this paper analyzes the credit risks of Chinese small and medium-sized foreign trade enterprises in the process of overseas development by combining literature research and case analysis. Taking X Group as a case, this paper analyzes the influencing factors of foreign trade in the process of X Group's development of foreign international market, as well as the influence of X Group's internal management measures, including enterprise system management, salesman management and other internal operation systems, on the overseas market development of small and medium-sized foreign trade enterprises.

Objectives

1. What is the current situation of credit risk management of Chinese small and medium-sized foreign trade enterprises in overseas market development?

2. What is the impact of the international trade environment on the foreign trade of X Group in the overseas market development?

3. What is the influence of X Group's internal management mechanism on the overseas market development of small and medium-sized foreign trade enterprises?

Then, according to the basic situation of X Group, it puts forward targeted strategies to mitigate credit risks from the perspective of external trade environment and internal management combined with strategies before, during and after the event. It is hoped that this paper can provide reference for the construction of credit risk control system and theoretical research of small and medium-sized foreign trade enterprises in China in overseas market development.

Research Questions

Under the all-round opening-up of the Belt and Road Initiative, Chinese small and medium-sized enterprises have gone to the world. However, the expanded market also faces great risks. Especially some small and medium-sized foreign trade enterprises, due to foreign buyers arrears, non-payment, fraud and other situations, resulting in the rapid growth of overdue accounts, the consequences of which are difficult to avoid. Based on this, this paper takes small and medium-sized foreign trade enterprise X as an example. In the process of research, this paper takes X Group as the main research object and raises the following questions in the first chapter:

1. What is the current situation of credit risk management of Chinese small and medium-sized foreign trade enterprises in overseas market development?

2. What is the impact of the international trade environment on the foreign trade of X Group in the overseas market development?

3. What is the influence of X Group's internal management mechanism on the overseas market development of small and medium-sized foreign trade enterprises?

Then, based on the current situation of credit risks faced by small and medium-sized foreign trade enterprises in overseas market development, X Group, a representative small and medium-sized enterprise, is selected to discuss its existing problems and put forward effective solutions according to the actual situation.

Literature review

1. Definition of small and medium-sized foreign trade enterprises

Weidong Sun (2018) believed that the definition of small and medium-sized enterprises in China would be adjusted according to the country's development stage, level and situation. Looking at the global definition of small and medium-sized enterprises, it can be divided into two types: quantitative and qualitative analysis. Shengzu Gu said (2012) that the quantitative indicators applied by various countries are also different. While the ownership of the firm, firm ownership, access to finance and the position of the firm in the industry are measures of quality. Xiuling Wu (2013) found that only 47.60% of people used quantitative and qualitative definitions, while 52.40% of people used the two methods. But the two definitions differ, with some countries stipulating that companies must meet two or more indicators, while others only need to meet one.

At present, in the definition of small and medium-sized enterprises, many countries adopt a quantitative approach. In some countries, it is not usual to put quantitative standards in the house of industrial companies: at present, in the definition of small and medium-sized enterprises, many countries (regions) are adopting quantitative methods. In some countries, the actual size of industrial companies is usually not counted, but measured according to the proportion of the industry, that is, the companies within this proportion are all small and medium-sized enterprises (Lu Liu, 2017).

The term "small and medium-sized" in small and medium-sized foreign trade enterprises directly reflects the differences in their number and size. Common measurement methods include the number of employees, total assets, turnover and so on (Chris Schachtebeck, 2019). Nowadays, countries and regions around the world use two or more quantitative criteria to distinguish small and medium-sized enterprises.

Qualitative criteria: At present, studies on the basic characteristics of small and medium-sized enterprises generally believe that: "individually owned and independently operated companies, without a proprietary industry". According to the qualitative definition, all companies with the basic characteristics of small and medium-sized enterprises are regarded as small and medium-sized enterprises (Yuechan Tan, 2012), such as whether the company can raise funds in the capital market and whether it can directly bear operational risks.

In general, most private companies in China belong to small and medium-sized foreign trade enterprises. Therefore, many Chinese scholars regard private enterprises and private companies as one and call them "small and medium-sized foreign trade enterprises". This paper focuses on small and medium-sized private companies in China, and the focus of this paper is on small and medium-sized private enterprises in China, some of which are not included in the scope of this paper.

2. Definition of the concept of small and medium-sized foreign trade enterprises

Rui Chen (2014) believed that small and medium-sized foreign trade enterprises refer to those with no more than 500 employees or no more than 10 million yuan in sales, engaged in foreign trade (import and export) business, and have the right to import and export legal commodities in the relevant industries listed in the registered enterprises. Foreign trade enterprises should meet four basic requirements

2.1 Enterprises can conduct independent operations in import and export trade (Yu Ma, 2011). This is the most fundamental condition for the company to carry out business activities independently under the macro control of the government. Companies should have stable, marketable exporters, or specific customers and importers. Products must have good quality and good marketing, have strong competitiveness with foreign products, and be able to adapt to the development of China's modernization and the needs of users (Jin Fang, 1985).

2.2 It has the right to independently control and use the management, business, foreign language and technical cadres necessary for direct goods exchange (Yisheng Chen, 2018). Business cannot be carried out without certain human, financial, material and technical equipment. If the company does not have its own management and use of its own personnel, capital and material and technical equipment, then the company will lose its ability to operate.

2.3 Be able to conduct independent accounting and bear profits and losses independently. This is the key to the autonomy of the company. Therefore, it is necessary to reasonably calculate and supervise the physical and material consumption of enterprises in production activities, and make up for the expenditure with their own income to ensure profits. A portion of the profits is handed over to the government as taxes; The remaining part is to expand the company's business and employees' interests (Xiaolin Xia, 2014), which is a socialist economic obligation of China's foreign trade companies.

2.4 Enjoy legal rights and status. A legal person refers to an economic organization established according to law that can independently exercise its legal rights and interests and fulfill legal obligations. After obtaining the legal person status and status according to law, foreign trade enterprises become independent units recognized and protected by law and exercise legal rights and obligations according to law. Therefore, after obtaining the legal person qualification and identity, they can open bank accounts, sign economic and trade contracts with the outside world, and assume economic and legal responsibilities (Bingcai Chen, 2018).

The above four elements are the fundamental characteristics of Chinese foreign trade enterprises and the necessary conditions for the development of foreign trade. Between the two, there are inextricably linked. Therefore, this paper defines small and medium-sized foreign trade enterprises as: 1) employees, relatively small asset scale, independent management, responsible for their own profits and losses; 2) Having the ability to conduct import and export business independently; 3) Have personnel, capital, material and technical equipment for direct import and export trade, and enjoy independent control and use rights. 4) Enjoy legal power and status.

Research Methods

1. Literature analysis approach

In the preparation stage and research process of the thesis, the relevant literature resources are obtained through the school library and the Internet, involving monographs, dissertations, journals and so on. In the selection of literature, one is to only grasp the direction of paper writing and select literature according to this goal, and the other is to read and classify. Through the way of reading, valuable literature resources are obtained, and on this basis, they are classified and sorted out. Through literature reading, we can obtain the resources needed for the research of this paper and provide theoretical support for the writing of the text. Federico Caniato (2012) wrote that one of the effective ways to solve the financing difficulties of small and medium-sized foreign trade enterprises is to provide credit guarantee in today's world. Based on the analysis of the business operation and credit guarantee characteristics of guarantee companies, he analyzed the defects of credit risk control of single credit guarantee companies. At the same time, the law of large numbers is used to make a mathematical analysis of the credit risk control theory of guarantee companies, and on this basis, the importance of credit risk management control to enterprise groups is analyzed.

A thesis by Deanna Sharpe (2016) used the method of mathematical statistics to establish a credit crisis early warning model for technology companies, and found various impacts on corporate performance, so as to realize early warning and risk control of credit crisis for technology companies. Based on empirical research, which takes the agent problem as the research object to distinguish the consistency of management rights and property rights, the research shows that professional managers can improve asset turnover, cash flow per share

and business gross margin, reinvestment ratio and operating income ratio by reducing debt ratio. However, professional managers can also implement business diversification to reduce business credit risk, improve profitability, and improve company performance. Starting from the background of strengthening the credit risk management of accounts receivable in the market economy environment of enterprises. This paper firstly interprets the credit risk management theory in the market economy environment, analyzes the current macro environment and basic situation, and then classifies and interprets the credit risk of accounts receivable. In one case study, a credit risk management system based on a deep understanding of its organizational system characteristics and accounts receivable credit risk management function was established. On this basis, the paper focuses on the construction of accounts receivable credit risk and credit risk prevention system, which provides a more effective framework for credit risk management system. Finally, the paper puts forward the problems and specific countermeasures in the credit risk management of accounts receivable, and provides reference for other enterprises.

Case analysis approach

In the fourth and fifth part of this paper, the method of case analysis is mainly applied. The selected cases are the L/C risk cases generated by X Enterprise in the process of trading in overseas markets. In the fourth part, the case study and investigation method are combined to analyze the status quo of credit risk management of small and medium-sized foreign trade enterprises, as well as the existing problems. In the fifth part, according to the existing problems, the problem solving strategy is put forward. In the application of case analysis method, typical cases should be selected to enhance their persuactness and research value.

Empirical Result and analysis

Established in Chengdu in 2001, X Group is a comprehensive company mainly engaged in import and export trade. With the continuous expansion of business, X Group has set up another company in Ningbo, but the company still implements unified financial management, unified business management and unified human resource management. Because most small and medium-sized foreign trade enterprises use unified management in L/C management to save costs, X Group is selected as the research object, which is representative to some extent.

In the process of research, this paper selects X Group, a small and medium-sized foreign trade enterprise, as an example to analyze the credit risk management problems of X Group in the process of developing overseas markets from three aspects: the status quo of X Group's credit risk management, international trade environment and internal management of the group. According to the relevant cases of export credit risk management of X Group recorded in the internal data of the company since 2021, the issues related to credit risk are demonstrated.

Credit risk analysis of X Group in overseas market development

The export credit risks of X Company mainly include payment arrears, breach of contract, quality fraud, trademark and patent infringement, etc. At present, in the competitive environment dominated by buyer's market, credit transaction is an important way for enterprises to gain competitive advantage. However, the delinquent accounts receivable ratio of X Group is relatively high, and the bad debt rate is much higher than the average level of European and American countries, which has a great impact on the sustainable development of the company. According to the current operating conditions of X Group, it is believed that its

credit risk includes the influence of the international market among external factors and the management problem of the enterprise itself among internal factors.

Globally, developed countries such as the United States, the European Union, and Japan, and even countries such as India and Russia, in order to safeguard their own interests and mitigate domestic financial crises, have shown a clear protectiveness, that is, to increase tariffs or non-tariffs to reduce the impact of domestic industries. Either form of trade protectionism will make China's exporters in the case of raising their trade costs and raising their trade difficulties, will make them rejected if they do not meet their technical requirements. Due to the change of international trade situation, China's small and medium-sized foreign trade enterprises are facing a more serious credit crisis.

Impacted by the economic crisis and the epidemic, the United States and other countries that have close relations with China, in order to save their economies, adopted the policy of QE3 (QE3) to keep interest rates low and inflation high to save their economies. As an important foreign exchange currency for China and an important settlement currency for international trade, inflationary pressure in China has led to its strength. Due to the depreciation of the RMB exchange rate and the appreciation of the RMB, the refusal of imports and policy risks of Chinese foreign trade companies have increased significantly. Exchange rate movements also cause sharp fluctuations in some raw materials and commodities around the world, such as iron ore, oil, steel products, and petrochemical products. Big moves and declines in those goods heightens the danger that buyers will default on their debts and, with them, that Chinese companies will be rejected.

In addition to the macro international trade risks, there are also internal problems in the credit risk management of small and medium-sized foreign trade enterprises in China, as well as small-scale foreign trade companies and small-scale credit risk management. Many small and medium-sized foreign trade enterprises are very dependent on foreign orders, if there is a credit crisis, it will bring disaster to the company.

China's small and medium-sized foreign trade enterprises have great problems in export credit, and their credit risk management system is not perfect. When Chinese enterprises enter the international market, they often have insufficient understanding of the credit crisis of their own products. Many exporters ignore the credit investigation and evaluation of customers, as well as the problem of management concept. In the fierce market environment, in order to obtain a large number of export orders, many companies over-meet customers in terms of settlement and payment, and use credit marketing to increase market share, increase sales and book income, while ignoring the control of goods payment, resulting in a sharp rise in the arrears of receivables. Fierce market competition forces merchants to use credit or forward payment methods to obtain customer orders by giving up payment methods to customers. Such publicity, for overseas customers, is absolutely a good thing, can enhance their competitiveness, promote their sales. However, at present, China's small and medium-sized foreign trade enterprises lack of communication platforms, but also have some of their own congenital defects and deficiencies. China's small and medium-sized foreign trade enterprises generally have the problem of credit risk management. Most of China's small and medium-sized foreign trade enterprises are small-scale, low-management and low-level. Some small and medium-sized enterprises have not even established the basic system of credit risk, but only attribute the management of credit risk to each financial functional unit. For example, most of the companies hand over the control of credit risk to the financial department, without establishing an independent and authoritative organization. Regulation and control of credit is also weak. From the perspective of China's macro credit management system, China's current credit system is not perfect. It is difficult for Chinese small and medium-sized foreign trade enterprises to obtain real, comprehensive and accurate credit information due to the disunity of foreign enterprises' credit information collection, collation and utilization. At the same time, Chinese small and medium-sized foreign trade enterprises cannot fully understand the situation of foreign enterprises due to their own limited ability and ability. Unable to accurately evaluate the reputation of foreign companies, unable to scientifically and

reasonably evaluate its reputation, so that its business activities can not be carried out normally.

Due to the lack of basic risk transfer mechanism in small and medium-sized foreign trade enterprises, it is necessary to carry out effective risk control in the process of risk management. China's existing corporate risk control system mostly focuses on the management of financial risks, and the system construction of product development, production, marketing, after-sales service and other aspects is not perfect enough. Some systems are too principled in their operation and difficult to implement in practice. At the same time, the quality and risk-taking willingness of employees will also become important factors restricting the development of enterprises. Because the company's own risk management system has the problem of "integration" with the relevant laws, regulations, codes of conduct and relevant regulations and other external norms, which leads to the company's internal management system in the actual application can not achieve its goals, nor can it ensure that the company's various business activities and management system can meet the requirements of the provisions; But for the current administrative system, but did not carry on the modification, the supplement, for the system formulation and the implementation process of the problems, to be solved in time. In addition, after the crisis, the accountability system within the company cannot effectively restrain, restrict, blur, weaken and damage the corporate governance; The purpose of enterprise performance evaluation is to improve the enterprise's risk perception, but the lack of effective performance evaluation mechanism makes the enterprise's risk response ability lag behind; Without appropriate incentives and penalties, employees will lack responsibility and enthusiasm.

Due to the lack of sufficient funds to improve the accountability, assessment system and the corresponding reward and punishment system, the company's business condition deteriorated and it could not operate normally.

The responsibility of the company is not clear, and effective synergy and constraints cannot be established. Due to the lack of cooperation among the credit risk management department, finance Department, human resources Department, legal Department and other departments, no effective collaborative recovery system has been formed within the Company, and therefore, the business subsidiaries of the Company are responsible for the recovery of debts. All sales and accounts receivable are made by branches.

There are problems in salesman management. The responsibilities of enterprises are not clear, and effective cooperation and restriction cannot be formed. Due to the lack of coordination and cooperation among credit risk management department, finance Department, human resources Department, legal Department and other aspects, there is a lack of effective coordination mechanism among enterprises, resulting in the subsidiaries of their subordinate enterprises to bear the corresponding legal liabilities. All sales and receivables are made through branches.

Credit institutions in China are small in number, small in scale and inexperienced. In a mature market environment, China's foreign trade enterprises can use decentralized ways such as export insurance to disperse trade risks, but China has not yet formed such a risk transmission system. Due to the lack of such risk transmission channels, China's small and medium-sized trading companies can neither obtain real and credible information about foreign companies, nor make correct decisions, which will also make them face certain credit risks in the process of foreign trade. The quantity, scale and quality of credit intermediaries are poor, which is quite different from international credit intermediary service companies, making it more difficult for them to deal with the credit risk of foreign companies.

Conclusion and recommendations

In the era of economic globalization and integration, a nation's credit action exists without borders. Under the changeable situation of "the Belt and Road" and financial reform and development, credit relationship has become a major feature of economic and trade cooperation among countries. China's small and medium-sized foreign trade enterprises account for more than 90 percent. Credit transactions can bring huge financial support to the financing and use of importers for the difference in the time of sales and payment of imported goods. Through credit transaction and settlement, it can help exporters obtain more business opportunities, so as to achieve a win-win situation for import and export enterprises. However, a large part of the current accounts receivable arrears and arrears faced by China's foreign trade industry are due to credit sales. Control of credit risk in operating capital operations. Therefore, in the environment of "The Belt and Road", the credit risk management of China's small and medium-sized foreign trade companies is an effective way to reduce the risk of bad debts, recover costs and prevent credit risks for Chinese small and medium-sized trade companies.

In the first chapter, this paper puts forward the following three problems:

1. What is the current situation of credit risk management of Chinese small and medium-sized foreign trade enterprises in overseas market development?
2. What is the impact of the international trade environment on the foreign trade of X Group in the overseas market development?
3. What is the influence of X Group's internal management mechanism on the overseas market development of small and medium-sized foreign trade enterprises?

Through investigation and analysis, the following conclusions are drawn:

1. According to the analysis, credit risks generally exist in China's small and medium-sized foreign trade enterprises, and the occurrence of L/C risks in China's small and medium-sized foreign trade enterprises is easily affected by the international trade environment and the company's internal management. Therefore, the future development of the company should actively adjust the organization of the company, actively respond to the foreign trade situation, and improve the internal management system. Take measures from both internal and external aspects.

2. The international trade environment has an impact on the foreign trade of X Group: From the analysis of the current situation of X Group's credit risk management, it can be seen that the main manifestations of X Group's export credit risk are account arrears, default, bad debts and bad debts; In international trade, changes in the international market, changes in trade policies, economic recession, the intensity of market competition, and changes in national tariff and non-tariff policies will have a direct or indirect effect on the credit risk of X Group. Therefore, in the process of overseas market development in the future, X Group should take risk prevention measures from three aspects: before, during and after the event. The first is to do in advance to prevent the customer's reputation rating; Follow up at any time in the process of the project, and then achieve "in-process control"; Finally, a virtuous cycle of positive response after the event to better respond to the international trade environment.

3. Through the analysis, it can be seen that the insufficient internal management system of X Group makes it more vulnerable to the influence of export credit risk in the overseas market development. Therefore, in the future development, X Group should actively learn and improve its ability to control unknown risks.

Finally, with the increasing globalization and internationalization of credit regulation, the development of foreign trade cannot be separated from national policies, regulations and measures, which must be in line with the international credit regulation system.

References

- Weidong, S. & Wei, S. (2018). The Way for small, medium and micro enterprises to build a sustainable business. Nanjing Southeast University Press, 28(6), 45-50.
- Gu, S. (2012). Construction of credit risk index system for small and medium-sized enterprises under supply chain finance. *Popular Investment Guide*, (05), 71-73.
- Xieling, W. (2013). Research on credit risk assessment model of Small and medium-sized enterprises under supply chain finance. *Industrial Innovation Research*, (23), 91-93.
- Liu, L. (2017). Current social credit system construction and credit investigation system architecture analysis. *The Chinese market*, 13, 38-40.
- Schachtebeck, C. (2019). Intrapreneurial Orientation in SMEs: A South African Perspective. *EuroEconomica*, 2, 243-256.
- Yuechan, T. (2012). Research on credit risk of SME credit of ZG Bank. *Southwestern University of Finance and Economics*, 35(12), 6-17.
- Rui, C. (2014). Development status and Coping Strategies of small and micro foreign trade enterprises. *Business Times*, (17), 104-106.
- Yu, M. (2011). Research on credit risk prediction of Supply chain financing of small and medium-sized enterprises. *Beijing Jiaotong University*, 18(3), 132-140.
- Jin, F. (1985). Sino-us Trade in 1984. *Information on International Issues*, (06), 22-23.
- Yisheng, C. (2018). Discussion on the Cost Control of Chinese Import and Export Trade enterprises. *Journal of Fujian Institute of Education*, 19(01), 45-49.
- Xiaolin, X. (2014). 2014, State-owned Enterprises and Reform (I). *Journal of Management*, 27(03), 1-15.
- Bingcai, C. (2018). Reflections on the Orientation of foreign economic policy under the Sino-US trade dispute. *China Foreign Exchange*, (15), 17-19.
- Caniato, F. (2012). Evaluation Research of Credit Risk on P2P Lending based on Random Forest and Visual Graph Model. *Journal of Visual Communication and Image Representation*, 18(5), 447-462.
- Sharpe, D. (2016). Knowledge mapping of credit risk research: Cienometrics analysis using CiteSpace. *Economic Research-Ekonomska Istraživanja*, 36(2), 235-251.

