

**Research
Paper**



*Received 31 August'08/
Accepted 10 February'09
SAFA = 0.66*

Firm Characteristics and Access to Bank Loans: An Empirical Analysis of Manufacturing SMEs in China

*Masanori Okura

Faculty of Economics, Senshu University, Japan

Abstract: Using the World Bank's Enterprise Survey, this paper examines the relationship between the financing patterns of China's manufacturing SMEs and their characteristics including ownership and location. The financing patterns of our sample firms are bi-polar depending on whether a firm makes use of bank loans. Therefore, we focus on the characteristics of those firms which have commercial bank loans for financing working and investment capital. Conducting probit analysis, we show that smaller firms and firms in the regions with less developed financial environments are more constrained in using bank loans. The availability of accounting and legal services, export right, and government agency's assistances enhance access to bank credits, although the government assistance has not necessarily targeted smaller firms.

Keywords: Chinese SMEs, financing pattern, bank loan access, probit analysis

INTRODUCTION

Small and medium-sized enterprises (SMEs) have played an essential leadership role in recent economic development in China to meet various market needs as well as to create sizable number of jobs. However, it has been widely discussed that the financial access of private SMEs is considerably constrained, and improving their financing environment is requisite for sustaining high economic growth and for further promoting the transition to a market economy.

The transaction and information costs to use external financial sources - be it through indirect or direct financing—are generally thought to be higher for SMEs than for large major enterprises. SMEs are generally under

