How Electronic CNY Can Leverage the Development of Small and Micro Enterprises in China

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Abstract. In recent years, China's digital economy has developed rapidly with the scale continuously growing in proportion to GDP. In the context of this development and expansion, Electronic CNY (e-CNY) has also developed in an orderly and stable manner, and the usage of e-CNY has comprehensively promoted the efficiency of the digital economy. With an emphasis on small and micro enterprises as the key component of the digital economy, this paper analyzes the special characteristics of small and micro enterprises in terms of financial situation and pattern of currency transactions and takes a deep dive into the scenario of financial difficulties in the development of small and micro enterprises. It gives suggestions to small and micro enterprises on how to leverage the method of financial assistance to accelerate and improve the operational efficiency of small and micro enterprises, expand the scale and profits of enterprises, and enhance the market competitiveness of small and micro enterprises in the digital age. This paper proposes that with the promotion and use of e-CNY, small and micro enterprises can embark on the development path by using various information tools, accelerate technological progress and industrial upgrading, realize large-scale operations, and eventually learn to manage enterprises with digital thinking in the wave of the digital era, gradually realize the digital transformation of enterprises, and finalize help the country's economic transformation with the digital transformation of small and micro enterprises.

Keywords. Electronic CNY(e-CNY), Digital Currencies, Small and Micro Enterprises, Financing

1. Introduction

In recent years, China's digital economy has developed extremely rapidly. With digital knowledge and information as production factors, modern information networks as carriers, and information communication as the core technical support, the digital economy has become an important part of China's national economic development. The 2021 government work report emphasizes that during the "14th Five-Year Plan" period, accelerate digital development, create new advantages in the digital economy, coordinate the promotion of digital industrialization and industrial digital transformation, accelerate the pace of digital society construction, improve the level of digital government construction, and create a good digital economy ecology, building digital China. Regarding how to build a digital economy, General Secretary Xi Jinping...
emphasized: "We must strengthen key core technology research, hold the "bull nose" of independent innovation, give full play to the advantages of my country's socialist system, the advantages of the new national system, and the advantages of super large-scale markets, and improve the foundation of digital technology. Research and development capabilities, fight the tough battle of key core technologies, achieve high-level self-reliance and self-improvement as soon as possible, and firmly grasp the autonomy to develop the digital economy[1]." General Secretary Xi Jinping's important assertion points out the direction for the development of my country's digital economy, which also means that during the "14th Five-Year Plan" period, China will fully enter the era of the digital economy.

According to the data provided in the "White Paper on the Development of China's Digital Economy (2022)" published by the China Academy of Information and Communication Research in July 2022, the average annual growth rate of China's digital economy since 2012 is as high as 15.9%, significantly higher than the average growth rate of GDP in the same period. 2021, the scale of the digital economy reached 45.5 trillion yuan, accounting for 39.8% of GDP, the digital economy in 2021, the digital economy will reach 45.5 trillion yuan, accounting for 39.8% of GDP, and the digital economy will play a more solid and significant role in the national economy[2]. During the same period, the value added of the digital economy of 47 major countries in the world is US$38.1 trillion, and China's digital economy accounts for 18.5% of the total of 47 countries, ranking second in the world after the United States. In the context of the rapid development of the digital economy, the importance of digital currency for the development of the digital economy is self-evident. The use of digital currency can not only meet the public's demand for legal tender in the digital economy, but also play a role in improving the security and convenience of retail payments, safeguarding the safety of monetary funds, facilitating international cross-border payment settlement, and actively and comprehensively promoting the efficient development of the digital economy. The huge scale of China's digital economy, which has continued to grow at a high rate in recent years, has created favorable conditions for the development and promotion of digital currency. China set up a legal digital currency research group by the People's Bank of China as early as 2014 to study the issuance framework, key technologies and circulation environment of digital currency. It is obvious that during the 14th Five-Year Plan period, digital currency in China will definitely have greater development and breakthrough, and gradually form a digital currency-led monetary form.

Digital currencies contain two types, the first is the legal digital currency issued by the state, such as China's e-CNY. The other type is a cryptocurrency, such as digital currency represented by Bitcoin and others. All these currencies are called digital currencies, which can realize digital transactions and payments, etc. For small and micro enterprises in the current rapid development in China, digital currency is a brand new blue ocean, and there are many unknown areas in both application and research links. In this paper, we will take e-CNY as the representative to discuss some problems and solution ideas of the current digital currency application link for small and micro enterprises.
2. Financial characteristics of small and micro enterprises

Globally, the number of micro and small enterprises accounts for more than 90% of the total number of enterprises worldwide, solving a large number of social employment needs and creating countless jobs. Compared with large enterprises, micro and small enterprises can readily adjust their business strategies, quickly respond to market changes and resolve economic conflicts in a timely manner. The quantity and quality of micro and small enterprises reflect the vitality and innovation of a country's economic business model and are important support for large enterprises. In China, micro and small enterprises are the main growth point of our national economy and are the basic force to activate the national economic market. During the "13th Five-Year Plan" period, the country's new micro and small enterprises accounted for more than 90% of the number of nearly 52 million. According to the National Bureau of Statistics, these small and micro enterprises contribute more than 50% of the national tax revenue, 60% of the GDP, 70% of the patent inventions, 80% of the urban employment, and 90% of the number of enterprises, and are the main force of the national economy and social development[3].

However, the survival cycle of micro and small enterprises in China is relatively short compared with other countries. According to some data, the average life span of micro and small enterprises in the United States is about 8 years, and the average life span of micro and small enterprises in Japan is 12 years, while the average survival period of micro and small enterprises in China is 4.13 years, among which the percentage of micro and small enterprises surviving for less than 3 years is nearly 50%, and nearly half of the micro and small enterprises have not survived a round of economic cycles and have a weak ability to resist risks. The difficulties in financing and financial vulnerability have become the main problems limiting the development of micro and small enterprises in China. Most micro and small enterprises lack sufficient robust cash flow and have weak cash buffers. Many enterprises only hold enough cash to last less than one month. This has led to serious vulnerability to economic fluctuations, such as the impact of the Covid-19 epidemic since 2020, which has had devastating consequences for many micro and small enterprises.

There are many reasons for this situation, including the limited operating capacity of themselves, the small scale of enterprises, the low level of financial information disclosure, the difficulty in obtaining their real financial status. For financial institutions, small and micro enterprises have a low credit evaluation level and high credit risk, so they have limited opportunities to obtain loans, and the financing channels are not smooth. etc., and even many small and micro enterprises have no loan relationship with banks. Compared with large enterprises, small and micro enterprises have very limited choices in financing, and financing difficulties have become the most obvious constraints in the development of small and micro enterprises[4].

3. Currency transaction characteristics of small and micro enterprises

The financing difficulties of micro and small enterprises have been a long-standing problem, and China has also introduced many policies to try to solve it, such as lowering the interest rate of loans for micro and small enterprises. However, the capital strength of micro and small enterprises and the limited external financing channels have made it difficult for micro and small enterprises to meet the requirements of
financial institutions when making loans. Especially in the face of the huge capital needs of trillions of micro and small enterprises in China, it is obvious that financial institutions have difficulty meeting the capital requirements of micro and small enterprises[5].

Many micro and small enterprises, because of financing difficulties, turn to other market options, such as long-term reliance on credit intermediaries that are outside of the banking supervision system and may cause transaction risks at any time, which are commonly known as shadow banks. Compared with traditional financial institutions, shadow banks lower the threshold for financing, reduce the financing procedures and processes, and provide micro and small enterprises with easy access to financing, so that they can complete financing in a shorter period of time and make a capital turnover. In a way, the existence of shadow banks supplements the financing areas that traditional financial institutions cannot solve or cover, providing financial support for micro and small enterprises and increasing the possibility of their survival[6].

However, due to the low access standards, high risks, high financing costs, and difficult supervision, shadow banks are not regulated by monetary institutions, which is not conducive to financing tracking and monitoring. In the long run, these shadow banks will cause hidden dangers to the capital security of small and micro enterprises, cause damage to the financial systems of small and micro enterprises, and at the same time disrupt the normal market financial order. From a long-term perspective, shadow banks cannot provide continuous and stable financial support for small and micro enterprises for a long time[7]. They can only alleviate the financing problems of small and micro enterprises in the short term. These unfavorable factors will add additional risks and uncertainties to the daily operations of small and micro enterprises, and the gradual accumulation will further harm the stability of the development and operation of small and micro enterprises.

4. How e-CNY can help small and micro enterprises

As a digital form of legal tender issued by the People's Bank of China, e-CNY is an alternative to traditional banknotes. It is exactly the same as traditional banknotes in terms of function and meaning, except that it appears in a digital form in terms of expression. It is a digitized banknote, which is a kind of digital currency. In recent years, China has gradually promoted the development and implementation of e-CNY. Since 2014, after theoretical discussions in the preparatory stage, the establishment of frameworks, and the implementation of technical means, it has now entered the pilot stage of application[8]. In April 2020, the People's Bank of China conducted the first batch of "4+1" e-CNY pilots. In December 2020, the first e-CNY e-commerce consumption was born. In May 2021, e-CNY APP was connected to Alipay, and e-CNY pilot work continued to accelerate. As of July 2022, e-CNY pilot project will be carried out in 23 regions in 15 provinces and cities, with more than 8 million pilot scenarios, involving paying utility bills, catering services, transportation, shopping consumption, government services, and other economic fields[9]. The development of e-CNY is Orderly and stable. These digital operations have integrated tens of millions of small and micro enterprises into the digital operation ecological environment, realizing a digital business model for small and micro enterprises.

Compared with the traditional cash transaction method, e-CNY has low circulation cost, high transaction efficiency, low market risk, advanced payment
method, anonymous payment, monitoring and traceability of transaction information, etc. It enables financial institutions to quickly and conveniently obtain the real operating conditions of small and micro enterprises at a lower cost, meanwhile facilitates financial institutions to judge and evaluate the credit rating and repayment ability of small and micro enterprises, etc. speeding up the approval speed of loans to small and micro enterprises, and then supporting the healthy development of small and micro enterprises from the financing link[10]. With the financing support of financial institutions, small and micro enterprises can optimize the production and operation of enterprises, reduce the comprehensive cost of enterprises, and reduce the burden on enterprises.

Since 2020, small and micro enterprises in China have been affected by the epidemic. Using e-CNY to finance small and micro enterprises, the financing funds can be sent directly to the e-wallets of small and micro enterprises in a short period of time, ensuring that the funds are quickly and accurately received. For the first time help those small and micro enterprises in need of assistance. As a smart currency, e-CNY can really reduce the financing risks and costs of small and micro enterprises, improve the willingness of financial institutions to lend, and achieve accurate loans and financing[11].

5. Conclusion

In summary, with the help of e-CNY, small and micro enterprises can reduce the cost of capital, improve the efficiency of their capital turnover and increase the benefits of their supply chain. With the addition of blockchain technology, e-CNY can track enterprise transactions in real-time, grasp the flow of funds, guarantee the safety of enterprise funds, and facilitate financial supervision. The promotion and use of e-CNY is the general trend and the inevitable choice of the market in the Internet era, which will surely bring more and more small and micro enterprises an economic, fast and safe digital cash environment, enabling them to embark on the development path by using various information tools, accelerate technological progress and industrial upgrading, realize large-scale operation, and eventually learn to manage enterprises with digital thinking in the wave of the digital era. Gradually realize the digital transformation of enterprises, let more and more micro and small enterprises integrate into the globalization and digital competition of the era, so as to enhance the vitality and innovation of China's micro-economic subjects and help the country's economic transformation with digital transformation.

References


