

Raising Capital for Social Ventures in China Focusing on Bank Service

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Abstract: The paper studies the most effective way to raise capital for social ventures in bank services nowadays in China. The purpose of this paper is mainly because China faces not only the pandemic influencing their social enterprises, but due to the world conflict, many banking firms are hard to maintain a run that eventually may damage the economic balance in China causing tons of social problems and country security. By using macroeconomic models and knowledge to analyze finding a suitable choice for banking ventures to implementation. The strengthening of injecting capital from foreign investors can be a better choice in recent years, while for social enterprises achieving long-run profits that government support may significant.

Keywords: Capital; Bank; Ventures; China

1. Introduction

The topic of this research paper mainly concentrates on the optimal way for raising capital for social ventures in nowadays China regarding bank services. During the period from 2020 to 2022, COVID-19 impacted the Chinese economy seriously since the beginning of the year 2020 and its effect extends through nowadays. This was followed by the trade war between America and China and the Russia-Ukraine War. Hence, it is urgent to estimate suitable methods to aid social enterprises in China pull through this period. The research question is what is the most suitable way for raising capital for social ventures in nowadays China regarding bank services?

This research will compare and contrast some methods that have been used for China government to assist social companies between 2020 and 2022. In addition, other countries' experience in helping social ventures may also be referenced. Moreover, basic macroeconomics knowledge like fiscal policy and monetary policy may be an efficient tool to analyze its results promoting the Chinese government's fund allocation optimally.

Although plenty of journal articles have estimated the impact of a pandemic on raising capital for social ventures, it lacks suggestions for nowadays China because many policies about the pandemic have been reissued in China and the world facing the negative influence of the Russia-Ukraine War, like shortage in food and energy crisis that may also affect government decisions about the quantity of capital for social enterprises. Acquiring a suitable method may promote prosperity for society and companies in China. The results may assume that combining two or three policies to implement may be the best portfolio for China government and Chinese social ventures.

2. Literature Review

Recent studies have shown that a rise in the capital can improve the resilience of banks to risk during the pandemic in the long run period, while raising capital may harm economic activities and the supply of credit in the short run, which may increase the transaction cost and risks of default rate^[7] (Mendicino, Nikolov, Suarez, & Supera, 2020). In addition, they mentioned the magnitude of these short-term costs will depend in particular on the implementation of monetary policy, the pace of implementation of higher capital needs, and the level of risk in the banking sector. These are efficient ways to analyze and estimate the bank risk promoting proficient results. However, this article did not conclude the impact on individual enterprises but summarized its influences on the

world banks sector lacking analysis specifically, especially in China. Further research relying on China bank sector will be tested in my paper.

My paper is complementary to the other paper's focus on capital raising. Examining the equity and debt securities in international banks to estimate the enterprise's level reaction to the domestic price response by analyzing firms from only one country and an exact period ^[3] (Meisami, Misra, Mehran, & Shi, 2014). This paper mainly focuses on the area in India, which has many similarities with China, contributing plenty of methodologies to use in my paper. Using investment characteristics to predict performance can test the relationship between performance and investment characteristics for venture capital firms and investments for individuals ^[2] (Lahr, & Trombley, 2020). Furthermore, analyzing the cost of raising capital may discover the overall outcome for the enterprises' future. Using the possible solutions that policymakers contemplating regulations can affect social ventures by setting policies into the market allowing no barriers for the transaction ^[6] (Bowen, Chen, & Cheng, 2008).

My paper is linked to the literature on macroeconomics knowledge like monetary policy and fiscal policy. Erel et al. (2012) mentioned that macroeconomic conditions and the structure of security issues do influence the raising capital for enterprises by explaining the traditional demand-based theories for corporate decisions about purchasing or selling risky or safe assets ^[5]. Moreover, Xiang et al. (2020), used some simple small-sized companies to analyze family firms and constraints in financing by evaluating their reactions and methods to deal with each policy and crisis like a pandemic or trade war ^[1]. Apart from that, Didier and Schmukler (2013) mentioned evidence about the capital market in China and India, which illustrated international capital raising for the firm's performance in these two countries and their equity or bonds at different decisions ^[4].

These seven papers all provide useful information for my topic, some provide basic background knowledge or analysis methods, and others illustrate different conditions and findings for raising capital for firms in different countries that can be compared and contrasted in my paper. This paper obtained the two most unique findings: the first suggestion is attracting foreign investors to inject equity in domestic private banks to achieve rapid capital flow for banks; the second advice is government capital injection to sustain the long-term operation of commercial private banks. These two findings may both have advantages to some extent, but how to gain the best portfolio will be analyzed in the discussion section that provides detailed explanations.

3. Research methods

Taking a methodological standpoint, combing previous papers on the banking sector in different areas and some economic knowledge and models like monetary policy or IS-LM model may efficiently analyze the main point promoting obtaining an optimal choice for social ventures in China, especially for the banking system that can raise money wisely.

Using macroeconomic knowledge may be one of the basic tools to analyze the results for raising capital for firms in China. For instance, if the government increases the money supply to the market but mostly for the enterprises that may generate a decrease in the interest rate and shift the LM curve downward, eventually people are more willing to invest their money avoiding getting a lower interest from the bank. This example describes the different reactions to the government raising funds and its results in promoting a clear method to depict its influence on different groups.

Evaluating the data using the basic economy model and knowledge to analyze the overall impact of different factors may provide a clear and constructive conclusion for the experts.

4. Results

In this essay two raising capital methods are estimated by using mentioned methodologies that shows increasing the foreign investors to inject capital into firms may be the best choice in the short run, which not only domestic firms can gain money stream immediately and make some decision but also foreign capital can gain some economic benefits due to recent firms have a lower point for their dividends that has not too much default risk. However, government support cannot instantly for social firms to recover from the pandemic and most times may provide them not bankrupt during the period. Moreover, allowing too much foreign capital in China's banking sectors may damage the country's security. Above all, social ventures in the short run can partly rely on foreign capital for raising capital, but in the long run, government funds are still suitable for them. Hence, as in recent years in China, social

enterprises can half rely on foreign capital in the banking sector, and half on the government part to gain optimal achievement.

5. Discussion

Two different categories of social ventures in the banking sector will be estimated to find out the reasons. Some banks had a considerable money shortage during this period. By analyzing this by the IS-LM model, although increasing the money supply and the interest rate may decrease that denotes people may willing to invest. However, after experiencing the pandemic and trade war between China and America, citizens are more willing to save money no matter how much interest may gain. This is followed by low capital mobility and the whole economic system cannot run effectively. Hence, government support may not have good results for the economy.

Ningbo bank company set a model for other companies. It allows foreign investors to participate, the domestic company may not face a serious budget deficit and go through this period not steeper. However, the government may control the major shareholders in this company, in one case it can inject capital, but more important is preventing the domestic capital flow to other countries too seriously. In the long run, the government can still take action to promote a prosperous future. Above all, simply relying on the government or foreign capital cannot gain positive trends, by combing it in recent times can maximize the value and maintain the country's security.

6. Conclusion & Recommendations

This paper offers two ways for social ventures to raise capital and the best portfolio for the companies to choose is to rely slightly heavier on foreign capital compared to domestic capital in the short period for banking sectors, while the domestic part will become the main role in the long run for raising capital for the social firm.

Further research may use this strategy to estimate for the next three to five years, whether it is still the best option after the pandemic or conflict events between certain countries. Moreover, after the pandemic and the crisis subsides, to what extent do these policies need to change or need to stay the same may need more work to develop.

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