Credit Discrimination, Asset Management Industry Development and Corporate Debt Financing Costs

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[Abstract] This paper studies the credit discrimination of private enterprises from the perspective of private enterprise debt financing cost, analyzes the impact of credit discrimination on the financing cost of private enterprises, and with the continuous development of China's asset management industry represented by trust industry, the credit discrimination has been weakened. The study found that when banks make lending decisions, they are not only based on the credit status and profitability of the company itself, but the credit discrimination caused by the difference in property rights makes the financing cost of private enterprises significantly higher than that of state-owned enterprises. Such existence is not conducive to encouraging the development of private enterprises and enhancing the vitality of the market economy; with the vigorous development of the asset management industry represented by the trust industry, the financing behavior is more market-oriented, and the development of the trust asset management industry helps to weaken credit discrimination. Financing costs of private enterprises have declined.

[Key words] credit discrimination, private enterprises, debt financing

I. INTRODUCTION

The difficulty of private enterprises' financing has always been an important problem that plagues the development of private enterprises in China. A lot of research shows that in China's financial system, credit discrimination against private enterprises has always existed. Although private enterprises develop rapidly, they obtain little loans from state-owned commercial banks. Still insignificant, credit discrimination has caused private companies to pay higher costs in order to obtain bank loans (Brandt and Li, 2003).

When the two types of enterprises with different risk degree apply for loans, they are subject to different financing constraints, namely, credit discrimination (Dai Ze et al., 2018). The reasons for credit discrimination in private enterprises may be diverse, but in China, because banks are state-owned, they may simply prefer to lend to state-owned enterprises, and banks may prefer to sacrifice profits to achieve political, ideological, or personal goals. And the lack of competition in Chinese banks has exacerbated this behavior (Brandt and Li, 2003).

Li Guangzi and Liu Li (2009) found that the cost of debt financing of listed companies became higher after privatization. Chen Geng, Liu Xing and Xin Qingquan (2015) found that credit discrimination enables banks to implement more stringent risk control measures for private enterprises. As a result, the term structure of bank loans of private enterprises is significantly shorter than that of state-owned enterprises.

The market competition and standardization brought about by the development of financial markets will have certain impact on the financing constraints of enterprises. The development of financial markets can effectively reduce the financing constraints of enterprises (Inessa Love, 2001). The development of financial markets can reduce credit discrimination. For example, the institutional reform represented by the share-trading reform has effectively narrowed the differences in corporate financing status of different property rights (Liu Jinyu et al., 2014).

The asset management industry represented by trust companies has achieved rapid development in recent years. Although the evaluation of the asset management industry is mixed, some people think that the asset management industry is a shadow banking, which has aggravated the financial bubble and did not help the real economy. However, with the expansion of the trust scale, the growth of the asset management industry will in fact give enterprises more financing options, although the nominal trust financing average interest rate is generally higher than the bank loan interest rate in the same period, but considering the existence of credit discrimination, the obtained bank loans by private enterprises cannot be obtained at normal interest rates. Therefore, the competitiveness of the financial market brought about by the development of the asset management industry may also contribute to reducing the financing costs of enterprises.

Through empirical research, this paper finds that: (1) credit discrimination based on property rights makes the financing cost of private enterprises higher; (2) the rapid development of the asset management industry represented by the trust industry promotes the marketization of financial institutions and weaken the credit discrimination, the financing cost of private enterprises has decreased with the development of the size of the trust industry.

An important part of the supply-side reform is to comprehensively promote the reform of the financial system, effectively reduce the financing costs of enterprises, and enable financial capital to truly serve the real economy. The research results of this paper can theoretically help to understand the impact of the development of the asset management industry on corporate financing behavior. In practice, it helps enterprises (especially private enterprises) to combine financial industry development and effectively optimize financing decisions; And provide reference basis for the supply side reform and related departments' supervision and financial risk prevention and control.

Ⅱ. LITERATURE REVIEW AND RESEARCH HYPOTHESIS

According to the company's financial theory, the cost of debt financing depends on the credit rating of the company. The higher the credit rating, the lower the financing cost. In general, the credit rating of an enterprise is determined by factors such as size, profitability, solvency, and operational risk.

However, Chinese companies' access to bank credits depends not only on credit ratings, but also on property rights characteristics as a potential factor in banks' judgment of credit ratings. Financial institutions such as banks in the formal financial system (especially state-owned financial institutions) have obvious credit discrimination against private companies, resulting in significant differences between private and state-owned enterprises in the acquisition of bank credit (Brandt and Li, 2003).

Solving the problem of financing difficulties and high cost of financing for private enterprises is an important measure to stimulate market vitality, promote innovation and high-quality development. The causes of financing difficulties for private enterprises are multifaceted, both for their own reasons and for the imperfections of China's financial system. A large number of studies have shown that in China, when banks and other financial institutions allocate credit resources, the most important consideration is not the credit risk of the enterprise, but other factors such as the nature of the company's property rights and government relations. Liu Yuying (2015) studied the financing difficulties faced by non-listed companies. The study found that under the same other conditions, non-listed private enterprises are more difficult to obtain loans than non-listed state-owned enterprises, and the degree of perfection of financial markets varies with the region. Compared with private enterprises, state-owned enterprises can better utilize the opportunities brought about by the improvement of the market to improve the debt structure. Liu Jinyu et al. (2014) did study from the perspective of cash-sensitive sensitivity of listed companies, they found that the investment level of state-owned listed companies will hardly fluctuate with the fluctuation of cash flow, while the investment level of non-state-owned listed companies is affected by cash flow significantly, thus demonstrating that property-based financing discrimination does exist.

Xia Xiangqian et al. (2019) analyzed the loan data of banks in various provinces from 2010 to 2017, and found that there are "owner discrimination" for private enterprises and "scale discrimination" for small and micro enterprises in the allocation of credit funds in the Chinese banking system, and since 2014 Since the beginning of the year, “discrimination of ownership” has increased year by year, but scale discrimination has weakened. Lu Feng et al. (2004) also found that non-state-owned sectors that contributed more than 70% of China’s economy accounted for less than 20% of bank loans.

Zhang Jie et al. (2013) used the Chinese Industrial Enterprise database to calculate the loan amount of different ownership types by calculating the proportion of interest expenses to sales, discussing “discrimination of ownership” in the allocation of credit funds in the Chinese banking system. They believed the “discrimination of ownership” of the system may be only a transitional issue in the process of economic transformation. In the long run, with the advancement of financial system reform, the conclusion will be weakened or even disappeared.

Bai Jun and Lian Lishuai (2012) measured the credit funds obtained from the bank by the cash received by the enterprises in the cash flow statement of the listed company, and then decomposed the difference in credit allocation between different ownership enterprises into “discrimination of ownership” and endowment differences, the study suggested that endowment differences are the main source of differences in credit allocation between state-owned and non-state-owned enterprises. Huang Peng et al. (2014) used the differences in financing costs between different ownership enterprises as the entry point,the study found that the existence of financing discrimination has a depressing effect on the R&D activities of various enterprises.

Private enterprises are more difficult to obtain loans from financial institutions than state-owned enterprises (Zhang Yang, 2016). If banks have credit discrimination against private enterprises, the nature of ownership of enterprises will affect the financing costs of private enterprises. At this time, in other cases, private enterprises may face higher borrowing rates, or need to pay additional financing costs such as financing consultant fees and financial advisory fees. In either case, private enterprises will bear higher financing costs than non-private companies.

Based on the above analysis, the first hypothesis of this paper is proposed:

H1: Under the same conditions, credit discrimination leads to higher financing costs for private enterprises than for state-owned enterprises.

Financing constraints are often attributed to factors such as capital market deficiencies, information asymmetry, and incentive issues, leading to differences between internal and external financing costs. The development of the financial industry has brought about an increase in the level of finance, which can reduce the degree of information asymmetry and agency costs (Inessa Love, 2001).

In recent years, China's asset management industry has achieved rapid development. The largest and most representative of asset management industry is the trust sub-sectors, its assets under management increased from 1.2 trillion in 2008 to 22.7 trillion at the end of 2018. For the development of the trust industry, domestic scholars believe that the expansion of the scale of shadow banking has intensified financial risks. Large enterprises and state-owned enterprises have provided financing to high-risk enterprises through shadow banking, which has raised their own risks. This indirectly increases the risk of the bank (Dai et al., 2018). On the other hand, the financial behavior of enterprises makes the funds spontaneously flow from the low-efficiency enterprise to the high efficient enterprise through the shadow banking system, thus alleviating the resource mismatch caused by financing discrimination and improving the efficiency of resource allocation of the entire economy. The rapid development of the trust industry enriches the connotation of the financial system, and plays an important role in further broadening the financing channels of enterprises and reducing the dependence of enterprises on pure bank loans.

The rapid development of the trust industry is conducive to the reduction of the financing costs of private enterprises. First, the development of the trust industry is conducive to increasing the marketization level of the financial system. The increase in marketization has brought about an increase in market competition. Traditional banks are no longer the absolute monopolist of the industry, which can freely raise financing costs and shorten loan terms to avoid risks. Banks also have incentives to increase customer stickiness, and star private companies have become the target of competition among major financial institutions.

Second, the development of the trust industry is conducive to improving the credit environment and reducing the degree of information asymmetry between financial institutions and enterprises. Full competition leads companies to seek financing from multiple channels. The participation of many financial institutions has increased the difficulty of financial information fraud. The improvement of corporate financial information quality has also enabled financial institutions to gradually reduce the possibility of determining financing conditions based on property rights. Therefore, it can weaken the phenomenon of credit discrimination based on property rights to a certain extent.

Based on the above analysis, hypothesis two is proposed.

H2: With the development of the trust industry, the weakening of credit discrimination will promote the decline of financing costs for private enterprises.

Ⅲ. RESEARCH DESIGN

1. Data and samples

This paper first selects samples of all A-share listed companies in China's Shanghai and Shenzhen stock markets from 2009 to 2018. Because in 2008, trust companies have successively renewed new financial licenses, opening a new era of asset management. Since 2009, the trust asset management industry has started to develop rapidly. The scale of asset managed by trust companies has increased from 1.2 trillion at the end of 2008 to 22.7 trillion at the end of 2018. The company-level data is derived from CSMAR, and the author has conducted a sample test based on the original annual report. Subsequently, the author screened the samples according to the following rules: (1) Excluding samples of listed companies in the financial industry; (2) Excluding companies with abnormal liabilities (companies with asset-liability ratio greater than 1); (3) Excluding data incomplete or samples of companies that are NULL; (4) A 5% Winsorized tailing of the extreme values. After the above treatment, 34,828 observation sample values were finally obtained.

2. Variables and models

(1) Definition of Variables.

We use the following model to examine the impact of property rights on financing costs (H1).

$$COST_{it}=\beta_0+\beta_1 CHQ_{it}+\beta_2 SIZE_{it}+\beta_3 PRO_{it}+\beta_4 DEBT_{it}+\beta_5 Tobin'Q_{it}+\beta_6 GDP+\Sigma IND\_dummy+\Sigma YEAR\_dummy+\varepsilon \quad (1)$$

where

COST=Financial expenses/(short-term loan+ long-term loan)

Nature of Property Rights (CHQ).Referring to Chen et al. (2015), the samples are divided into two categories according to the ultimate controller, namely state-owned holding and private holding. When the listed company is a private holding company, CHQ=1; otherwise, CHQ=0.

Trust industry development level (TRUST).Take the natural logarithm of the asset management scale by trust industry at the end of the year.

Referring to existing research on credit discrimination (Chen Geng et al., 2015), I chose the size of the company (SIZE, the natural logarithm of total assets), profitability (PRO, net profit/total assets), debt ratio (DEBT, total liabilities/total assets), growth opportunities (Tobins'Q, sample company's Tobin Q value at year-end market capitalization), industry dummy variables (IND_ dummy, referenced to the 2012 version of the SRC industry classification code), annual dummy variables (YEAR_ Dummy) as a control variable.

The development of the asset management industry has increased financing channels for all companies. However, the borrowing costs from trust companies are generally higher than bank loans during the same period. For state-owned enterprises, the main aim of using trust loans is to better support exaggerating, not to reduce financing costs. For private enterprises, considering the high cost of invisible loans caused by credit discrimination, asset management products by trust companies are likely to reduce their financing costs. Therefore, the author selects the private enterprise subsample from the whole sample, builds the model (2), and tests the impact of trust asset management development on the financing cost of private enterprises. The author expects that the β_1 symbol in model (2) is negative.

$$COST_{it} = \beta_0 + \beta_1 TRUST_{it} + \beta_2 SIZE_{it} + \beta_3 PRO_{it} + \beta_4 DEBT_{it} + \beta_5 Tobin'Q_{it} + \beta_6 GDP + \Sigma IND\_dummy + \Sigma YEAR\_dummy + \varepsilon \quad (2)$$

Ⅳ. EMPIRICAL ANALYSIS

1. Descriptive Statistics

The empirical analysis begins by providing descriptive statistics relating to these components. Table 1 provides statistics on the characteristics of main variables.

TABLE1 Mean(median) Values of variables

Variables	mean	median	Std.Error
COST	0.0452	0.0487	0.0734
SIZE	22.2486	22.0658	1.3505
PRO	0.0340	0.0330	0.1284
DEBT	0.4484	0.4462	0.2091

Table 1 reports the descriptive statistics of the main variables. The full sample corporate finance cost (COST) has an average of 0.0452 and a median of 0.0487.

2. Test of hypothesis and analysis

Test of H1 are provided in table2. From the regression results, there is a statistically significant positive correlation between the Nature of Property Rights (CHQ) and COST, indicating that the financing costs of private enterprises are higher. Support the hypothesis of the article.

TABLE2

The impact of the nature of property rights on financing costs

Variables	Predictive symbol	Coefficient	Std.Error	t_value	p_value
CHQ	+	0.0042***	0.0009	4.91	0.000

SIZE	−	-0.0068***	0.0003	-18.16	0.000
PRO	−	-0.0488**	0.0032	-15.38	0.000
DEBT	+	0.0064***	0.0016	3.86	0.000
TOBINQ	−	-0.0040***	0.0002	-16.40	0.000
IND		control	control	control	control
YEAR		control	control	control	control
R-squared	0. 1311				
Adj R-squared	0. 1288				
F	57. 57***				

***、**、* denotes significance at the levels of 0. 01, 0. 05, and 0. 1, respectively.

Next, the author uses the subsample of private listed companies to test hypothesis 2, and the regression results are shown in Table 3.

TABLE3

The Impact of the development of Trust industry on the Financing Cost of Private Enterprises

Variable	Predictive symbol	Coefficient	Std.Error	t_value	p_value
TRUST	−	-0.0022***	0.0010	-2.22	0.027
SIZE	−	-0.0051***	0.0006	-8.21	0.000
PRO	−	-0.0425***	0.0036	-11.73	0.000
DEBT	+	0.1118***	0.0030	37.21	0.000
TOBINQ	−	-0.0034***	0.0003	-11.09	0.000
IND		control	control	control	control
YEAR		control	control	control	control
R-squared	0. 1633				
Adj R-squared	0. 1593				
F	40. 55***				

From the regression results, there is a statistically significant negative correlation between the assets management scale of trust industry and financing cost of private enterprises, indicating that with the development of trust industry, the financing cost of private enterprises has decreased, showing the service provided by trust industry is a useful financing channel supplement for private enterprises, which has a certain positive effect on reducing their financing costs.

3. Robust test

Considering the simultaneous listing of A-shares and H-shares, there may be differences in information disclosure requirements and supervision, which affects the difficulty of financial institutions in obtaining corporate data, thus affecting their credit decisions. Therefore, we eliminate the simultaneous A-shares and H-shares and re-examined the aforementioned regression analysis. The regression results are similar to those before the rejection. Still able to support the assumptions in this article. The regression results are detailed in Table 4 and Table 5 below.

TABLE4

The impact of the nature of property rights on financing costs(Delete AH companies)

Variable	Predictive symbol	Coefficient	Std.Error	t_value	p_value
CHQ	+	0.0044***	0.0009	5.10	0.000
SIZE	–	-0.0073***	0.0004	-17.85	0.000
PRO	–	-0.0485**	0.0032	-15.19	0.000
DEBT	+	0.0931***	0.0021	45.21	0.000
TOBINQ	–	-0.0040***	0.0002	-16.24	0.000
IND		control	control	control	control
YEAR		control	control	control	control
R-squared	0.1368				
Adj R-squared	0.1345				
F	58.25***				

TABLE5

The Impact of the development of Trust industry on the Financing Cost of Private Enterprises(Delete AH companies)

Variable	Predictive symbol	Coefficient	Std.Error	t_value	p_value
TRUST	–	-0.0020***	0.0010	-2.00	0.045

SIZE	-	-0.0050***	0.0006	-7.81	0.000
PRO	-	-0.0426**	0.0036	-11.73	0.000
DEBT	+	0.1120***	0.0030	37.13	0.000
TOBINQ	-	-0.0035***	0.0003	-11.08	0.000
IND		control	control	control	control
YEAR		control	control	control	control
R-squared	0.1647				
Adj R-squared	0.1606				
F	40.61***				

Ⅴ.CONCLUSIONS

This paper studies the impact of credit discrimination based on property rights on the financing costs of private enterprises, and the impact of the development of asset management industry represented by the trust industry on the financing costs of private enterprises. Through empirical research, the main conclusions are as follows:

(1)Credit discrimination based on property rights has led banks and other financial institutions to reduce the risk, making the financing cost of private enterprises significantly higher than that of state-owned enterprises, which is not conducive to fair competition between enterprises;

(2)With the vigorous development of the asset management industry such as trust industry, the financing is more market-oriented, and the development of the trust industry helps to weaken credit discrimination, and the financing cost of private enterprises has declined.

The research results of this paper have important implications for observing the micro-effects of the development of the macro-financial environment, as well as formulating macro-policies and optimizing the financing decisions of enterprises. (1) The credit discrimination of private enterprises in China's financial system does exist, leading to different property rights enterprises. The different financing environment is not conducive to encouraging the development of private enterprises, and is not conducive to enhancing the vitality of the market economy. Private enterprises are an important part of our national economy. Cost reduction is also an important task of supply-side reform. Therefore, the issue of credit discrimination must be paid attention to by relevant departments, and initiatives should be made to strive to eliminate or weaken credit discrimination as soon as possible, thus contributing to China's economic development and transformation; (2) In recent years, the booming development of the asset management industry has made the loan behavior more market-oriented, effectively improved the credit environment, and weakened credit discrimination against private enterprises to a certain extent. The comprehensive capital borrowing costs of private enterprises have been reduced. Therefore, in practice, the financial industry should be encouraged to bloom, encourage the trust industry to return to its original source business, continuously improve the marketization level of the financial market, and enable financial institutions to effectively serve the real economy.

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