

The Role of Venture Capital in Financing Small and Medium Enterprises (SMEs) in China

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Abstract:

This study aims to highlight the role of venture capital in financing small and medium-sized enterprises (SMEs) as a modern approach adopted by venture capital institutions to support these enterprises with the necessary funds and expertise for managing and organizing their operations. It also sheds light on the financial challenges faced by these enterprises, particularly in accessing traditional bank loans, and underscores the role of venture capital as an effective alternative.

To understand the nature of this role, the study focuses on China's experience as one of the successful models in this field. China has effectively implemented this approach, which has contributed to the growth of SMEs and resulted in significant economic gains. The key factors behind China's success include a supportive regulatory environment, appropriate government policies, and public-private partnerships.

The paper concludes with recommendations for developing countries to create similar environments that encourage innovation, support SME growth, and achieve economic development.

Keywords: Venture Capital, Small and Medium Enterprises (SMEs), Financing

JEL Classification Codes : G24, L26, O16, O38.

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1. Introduction:

Small and medium enterprises (SMEs) are considered the backbone of an economy, these enterprises represent an essential source of economic growth, dynamic and flexibility in advanced industrialized countries. They fuel growth, inspire innovation and generate jobs, thus forming a vital pillar of sustainable development. However, there are some major financial challenges that even star SMEs face that keep them from reaching their full potential. Many of them are unable to get conventional loans because they do not have enough collateral or because lenders have found it difficult to measure the risks involved. These impediments prevent many SMEs from demonstrating growth; others are even casualties to closure.

These obstacles have prompted many countries to deploy the alternative financing mechanism tailored to the preferences of small and medium-sized enterprises (SMEs). One of the most salient and groundbreaking of these is venture capital, a model of partnership and risk-sharing through which investment is made. It allows for the financing of the growth of new and technology-based enterprises without needing traditional guarantees. It mainly focuses on high-growth projects, especially in the technology and innovation sectors.

in this regard, China's experience in adopting venture capital has become a widely regarded success model. And through multi-faceted government initiatives and support programs, the country has successfully laid the groundwork for creating a supportive investment and regulatory environment for this type of financing. In addition, the impetus for funding SMEs and progressing innovation has also been underpinned by a clear partnership between the public and private sectors. In fact, China holds second place in the world when it comes to the size of the venture capital market, second only to the USA, a reason that stands as testament to the great development and success the country has excelled in.

The Problem Statement: According to the above, the research problem can be formulated in the following question:

What is the role of venture capital in financing small and medium-sized enterprises (SMEs) in China, and what are the key factors for its success?

Importance of the Study: The study examines the role of venture capital in financing small and medium enterprises and highlights China's achievements in this field. The research gives insights and suggestions that can help developing countries in enhancing their SME financing and promoting sustainable economic development by understanding the factors that contribute to the Chinese model's success.

Objectives of the study:

This study aims to:

- Analyze the role of venture capital in financing SMEs in China and assess the effectiveness of government policies and public-private collaborations.
- Identify key success factors for venture capital in China's SME sector.
- Explore the obstacles that SMEs have in obtaining traditional funding and the manner in which venture capital reduces these issues.
- Provide recommendations for developing countries on replicating China's venture capital model to support SME growth and innovation.

Methodology of the study: This study uses a descriptive-analytical approach to examine the role of venture capital in financing SMEs in China. It analyzes government policies, public-private partnerships, and the effectiveness of venture capital in supporting early-stage businesses. Data will be collected from secondary sources, including industry reports, government publications, and previous studies.

2. Theoretical Framework:

2.1. Small and Medium Enterprises (SMEs)

2.1.1. Definition of Small and Medium Enterprises

No single definition of small and medium enterprises (SMEs) is universally agreed upon due to the differences in the methods and criteria used to define SMEs. These criteria may be in some cases quantitative, such as the number of employees, capital, rate of capital to output, added value, or turnover, or qualitative, such as ownership, independence, market share, organizational structure, activity local nature. Another contributing reason for the absence of a common definition is the different environmental conditions of each country, levels of technological and industrial advancement, and sectors of the economy. For instance, what qualifies as a small or medium-sized in the commercial sector may not apply to the industrial sector. Among the definitions provided for SMEs, we mention the following:

The United States' definition of small and medium enterprises.:

The Small and Medium Enterprises (SMEs) Act of 1953 provided an official definition of small and medium enterprises, identifying them as businesses that are independently owned and operated, without holding a dominant position in their industry. This classification was further clarified by incorporating two key criteria: the size of the workforce and the annual revenue generated. (Djamil, 2010, p. 244)

The European Union's definition of small and medium enterprises:

According to the European Union's definition, Small and Medium Enterprises (SMEs) are businesses that employ fewer than 250 people, with an annual turnover of no more than €50 million and a total annual balance sheet not exceeding €43 million. (Levratto, 2009, p. 24)

2.1.2. Characteristics of small and medium enterprises

The main characteristics of small and medium enterprises include the following: (Fawzi, 2008, p. 105)

- Firstly, Small and medium enterprises often demonstrate efficiency and effectiveness that surpass the capabilities of larger businesses. This is accomplished by emphasizing performance and outcomes within brief timeframes, leveraging direct communication, and facilitating rapid influence over interactions among managers, employees, clients, and suppliers. Moreover, they produce rapid and substantial returns owing to their swift capital turnover and capacity to quickly adapt to competitors' strategies and activities.
- Secondly, the capacity for renewal and innovation, as well as contributions to technological advancement and scientific research—especially in emerging fields such as microelectronics and biotechnology—constitutes a significant characteristic of small and medium enterprises. This is accomplished by emphasizing quality, operational excellence, and fostering an environment where employees can propose ideas, express opinions, and leverage customer feedback and the experiences of others.

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- Thirdly, effective leadership and guidance facilitate the establishment of clear project objectives and enhance the capacity to persuade employees regarding the principles, policies, and systems that keep project operations.
- Fourthly, the proper division of duties among the project's departments, the accurate characterization of roles, and the task clarification all contribute to the project's simplicity and ease of organization.
- Fifthly, the balance between centralization for planning and control purposes and decentralization for the sake of quick implementation.

2.1.3. The importance of small and medium enterprises in economic development:

Small and medium enterprises have a crucial role in the economic development, with their significance evident in several critical domains, particularly:

- **Contribution of small and medium enterprises to employment:** Small and medium enterprises (SMEs) are essential for creating job opportunities, despite their small size and limited capabilities, they outpace even big enterprises. Its importance is widely recognized in both developed and developing countries. (abdellaoui , 2017, p. 80) they contribute to re-employing workers who have been laid off due to economic conditions, enabling the utilization of their skills and experiences and turning their ideas into reality. (Souchi & Bouchoucha, 2024, p. 336)
- **The contribution of small and medium enterprises to export development:** Export development is an important issue for many developing countries who suffer significant and increasing deficits in their balance of payments, especially in the trade balance. In the past, exporting has been predominantly controlled by major corporations because of the substantial investments necessary to create intricate trade networks linked to extensive worldwide marketplaces. This circumstance effectively restricted export operations to large firms. Nonetheless, small and medium enterprises (SMEs) possess certain advantages that can improve export capabilities, including: (Algharbawi , 2020, p. 100)
 - **Adaptability and Flexibility:** Small and medium enterprises have very flexible structures that enable them to modify their manufacturing plans to fit foreign markets. Their rather low capital expenditures allow for this adaptability, which helps them to more satisfy consumer needs and open export markets.
 - **Specialization:** Some argue that focusing on a singular production field is the ideal strategy for SMEs to enter international markets.
 - **Innovation:** The adaptability of SMEs enables them to respond quickly to variations in consumer preferences, expectations, and competitive market dynamics.

In order to highlight the crucial role that SMEs play in exports; it is possible to refer to the experiences of different countries. Small and medium-sized enterprises (SMEs) play a crucial role in Switzerland's industrial production of electronic equipment, pharmaceuticals, watches, and other goods, which helps these industries compete on a global scale. Most of Hong Kong's exports come from the ready-made clothing industry, which is run by small businesses. Similarly, small and medium-sized enterprises (SMEs) play an important role in South Korea's economy, as their industrial exports account for 35% of the country's total exports.

- **The contribution of small and medium enterprises to increasing national output:** SMEs play a significant role in producing more goods and services because they are able to hire more people. Overall effective demand for investment and consumer goods is subsequently

increased. When people have more jobs, they have more disposable income. Some of it goes toward buying things right away in stores, but most of it gets put into small businesses or saved up by banks, which are used for bigger investments. In addition, the different production factors that SMEs use help to increase productivity rates. In addition to lowering marketing and storage expenses, they increase sales turnover, which in turn allows for cheaper product delivery to customers. The diverse range of economic sectors represented by SMEs contributes to the overall growth in the size and diversity of national output.

- **The contribution of small and medium enterprises to achieving economic integration:** the integration of small and medium enterprises with large corporation's work is a matter of great importance. Working together, SMEs and large enterprises can expand industrial production, organize intermediate consumption, and strengthen the industrial sector overall. SMEs are frequently considered as feeder projects that provide essential inputs to big businesses. For example, Renault collaborates with over 50,000 SME suppliers, whereas General Motors works with over 30,000. The "satellite system," in which the parent company is encircled by a network of small and medium-sized industrial enterprises, is a practice used by large corporations in Japan. These SMEs supply production inputs in accordance with rigorous, disciplined schedules and exact specifications.

2.1.4. The obstacles and challenges facing small and medium enterprises (SMEs):

The growth and development of small and medium enterprises around the world face a wide range of challenges, which differ depending on the region or sector. On the other hand, small and medium enterprises all over the world face a number of challenges. These challenges are frequently connected to one another. In general, some of these problems are internal, originate from within the enterprise or its owner, while others are external, resulting from outside factors or the surrounding environment. A review of existing research and previous studies shows the main challenges generally faced by SMEs around the world are: (Essam Fathi, 2022, p. 36)

- **Financing Problems:** Small and medium-sized enterprise owners deal with significant obstacles getting the necessary financing at an appropriate scale and under favorable conditions when creating their own projects. Even when financing sources are available, the interest rates enforced on investors are often high, due to the strict guarantees required and the complexity of the related procedures. These barriers have made it extremely difficult to integrate many industries and have impeded attempts to embrace contemporary technologies. The financial issues can be summed up as follows in general: (Bechenni & Cherrara, 2022, p. 405)
 - Small and medium enterprises generally depend on self-financing, which limits their operations to their current and limited financial capabilities.
 - The legal structure of these enterprises, typically as individual businesses, complicates their ability to raise capital through the issuance of shares or bonds for borrowing purposes.
 - Commercial banks often exhibit refusal in providing short- or long-term loans to these enterprises unless they have significant recognition or are supported by guarantees from recognized institutions or individuals within the business community.
 - They incur significant expenses to secure financing because of the elevated interest rates.

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Many banks tend to allocate their resources towards large enterprises instead of SMEs. Large enterprises tend to exhibit a reduced risk of default, and their financial statements are transparent. Nonetheless, SMEs present a higher level of risk, particularly from the perspective of lenders, and they often lack transparent accounting information. (Naoyuki , 2016, p. 06)

- **Lack of Information Problem:** This issue is caused by a lack of knowledge on the marketplaces for goods and resources as well as the needs for production. It also includes project managers' or owners' ignorance of many laws and government rulings, including labor rules, social security, tax incentives, project registration requirements, and others. (Kadi & kassab, 2012, p. 12)
- **Marketing Problems:** One of the main obstacles faced by these enterprises is their small size, which makes it hard for them to obtain bank loans. Many factors contribute to this, including high risk and insufficient owner guarantees. There is also a lack of knowledge about banking and accounting records that show the business's financial situation and make predictions about its future. The decline in product quality is reflected in problems such as a lack of experience and skilled labor, weak quality control, and the inability of such enterprises to produce goods that meet the necessary standards and specifications. Also, there's a failure to conduct market research and an absence of information within the enterprise about the target market. Government organizations and some social groups prefer to work with big companies because they can get what they need at a good price and with a guarantee. They can also be sure that they will get what they need on time and in the right amount. This also helps avoid administrative and financial problems related with dealing with a large number of small enterprises. Furthermore, people generally don't trust local items as much as they do foreign ones. (Hamidato & Bakkas , 2017, p. 08)
- **Competition Problems:** Small and medium enterprises, especially in developing countries, face significant obstacles resulting from intense competition and the impact of internationalization and globalization on the economic sector. The intense competition makes dealing with competitors a difficult and complicated task for small and medium enterprises. Business owners need to seek innovative and efficient strategies for bettering their products and services, grow their customer base, and improve their quality and productivity. It is also necessary to develop management, marketing, and innovation skills to achieve competitive excellence in a market characterized by major obstacles. (Saadiya , 2023, p. 48)

2.2. Venture Capital

2.2.1. History and Definition of Venture Capital

2.2.1.1. History of Venture Capital

Venture capital, as we know it today, first developed in the U.S. after World War II, spearheaded by the French General Georges Doriot (1899–1987). He founded the first ever venture capital firm in the world, in America, with a syndicate of Boston financiers, American Research & Development Corporation (ARD), in 1946. The body mainly sponsored financial support for small, entrepreneurial businesses, with an emphasis on the electronics field. The system of supporting innovative enterprises reigned for a while until the name change led to the first breakthrough with venture capitalism in the 1950s, the American model became a point of reference for the rest of the world. By 1983, venture capital expanded to Europe, leading to the establishment of the European Venture Capital Association

to develop this profession. The United Kingdom was the first to adopt it, followed by France and the Netherlands, and later, starting in 1992, it spread to Germany, the rest of Europe, and some Arab countries. At the beginning of the 21st century, venture capital emerged globally to address the growing needs for investment financing. (belaidi & meguellati , 2016, p. 236)

2.2.1.2. Definition of Venture Capital:

There are many definitions of venture capital, among them are:

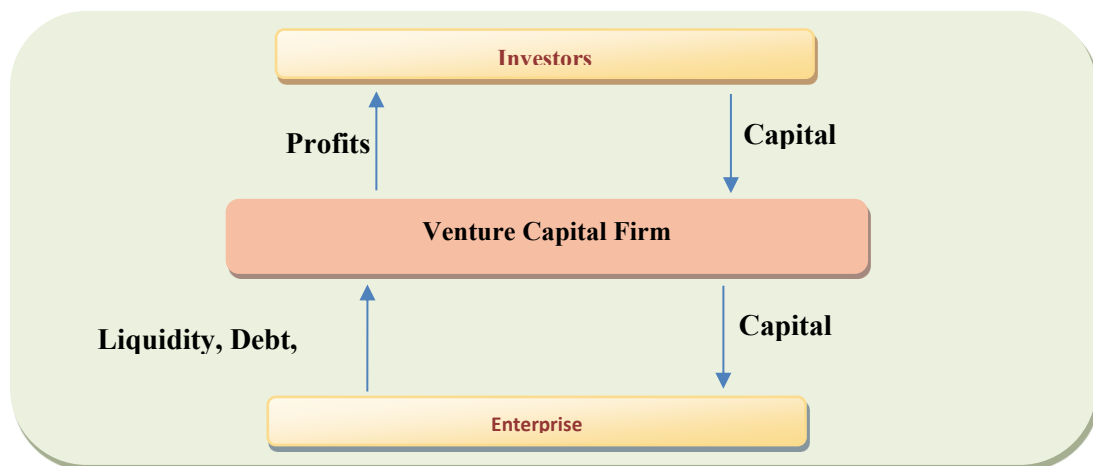
According to the European Venture Capital Association (EVCA) venture capital refers to the capital provided by specialized financial intermediaries for high-risk projects promising substantial capital appreciation but do not promise definite monetary returns or capital taking back in a specific timeline. It's a high-risk investment because shareholders can leverage high long-term returns if they invest in projects that they hold for several years and then sell their shares. (Abdelbasset , 2001, p. 04)

According to the United States National Venture Capital Association (NVCA), venture capital is: an investment that is long term in nature and made in high-potential enterprises, by investors who specialize in this type of investment. (Rouabeh & Madani, 2022, p. 392)

And so, The German Central Bank characterizes venture capital as: a form of funding offered to new or small-to-medium sized innovative and technology-based companies that are usually not publicly traded" They are not making a lot of profits right now, but they have very large and adequate growth potential. (Arnd , 2006, p. 04)

Venture capital is yet recognized as a high and variable risk investment depending on where an enterprise is on its investment stages. In doing so, investors provide entrepreneurs with both the capital needed to take advantage of market opportunities as well as managerial experience for long-run profitability. Venture capitalist's intermediary between the sources of capital (usually institutional investors) and high growth, high technology enterprises. (berrak & benzaoui, 2014, p. 16)

Fig.1. Venture Capital Financial Intermediation



Source: (berrak & benzaoui, 2014, p. 10)

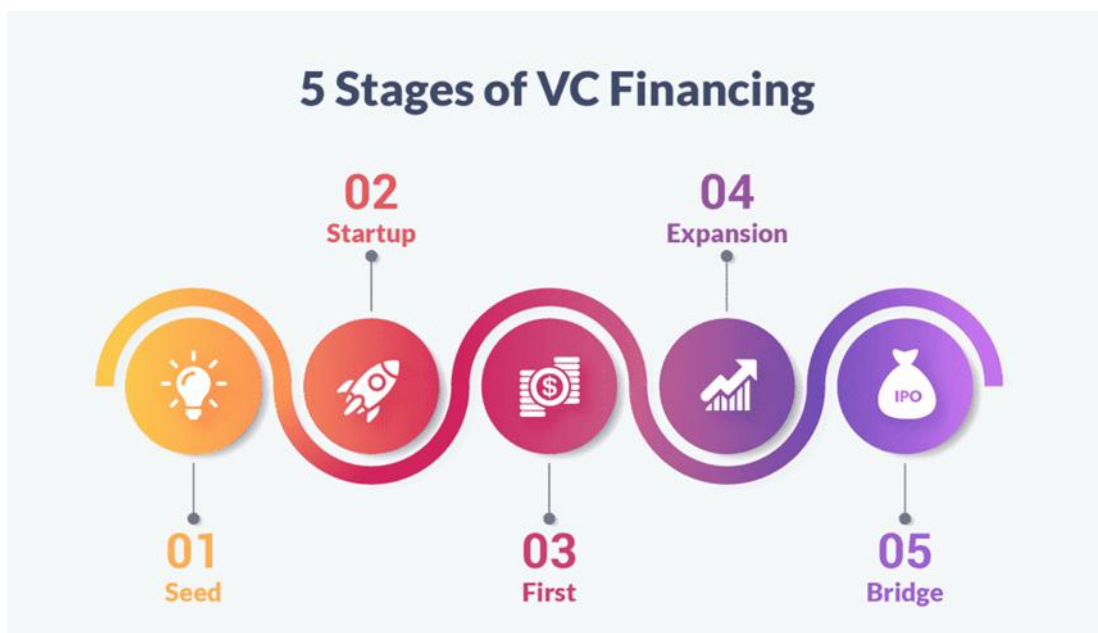
2.2.2 The stages of venture capital financing

The five main stages of venture capital financing are: (ziraldo , wylie , & daniels , 2024)

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- **Seed stage:** seed-stage VCs provide funding to businesses that are still only an idea for a product or service. Alternatively, if the idea had potential for growth, the VC would finance early product or business plan development or market research. They may also establish a management team for the company.
- **Startup stage:** After a startup has a business plan and maybe a product prototype to share with investors, VCs would provide money to cover startup costs — advertising, marketing. The business might raise funds from the same VCs who funded the seed stage or it might take on new investors.
- **Early Stage:** Venture capitalists would supply funds for production and sales once the firm became operational.
- **Expansion stage:** Once the business is selling products and services, VCs may help expand the business by investing in expanding marketing effort or a new product line.
- **Bridge stage:** then a business may become a public company. At this point, VCs would exchange funding for equity securities that provided a capital cushion for an eventual merger, acquisition or initial public offering (IPO), then hedge their investment and get an exit by selling shares.

Fig.2. The stages of venture capital financing



Source: (ziraldo , wylie , & daniels , 2024)

3. Applied Study:

3.1. Small and Medium Enterprises in China

The SME Promotion Law of the People's Republic of China (2003) defines small and medium enterprises (SMEs) as businesses that are "relatively small in terms of personnel and business scope." These businesses classification is based on a number of characteristics, such as their total assets, revenue, and number of employees. These standards may differ based on the industry sector and were set by the State Council's pertinent departments. (chen , 2023, p. 03)

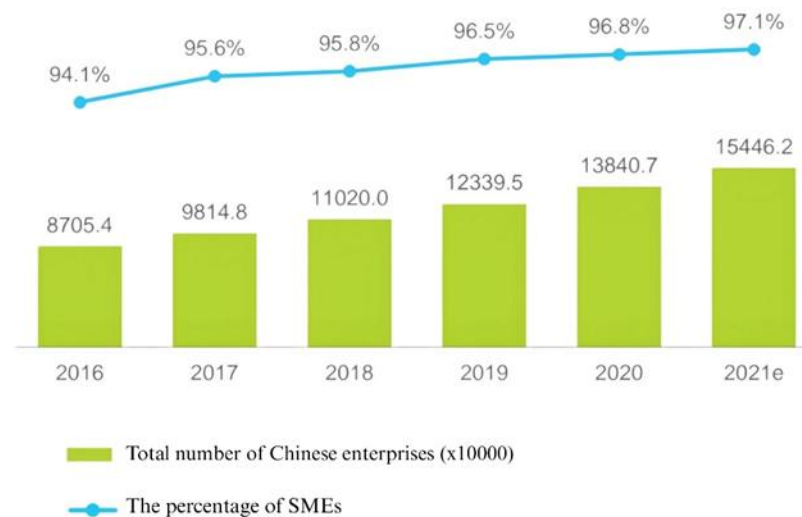
Table 1. The definition of SMEs in China's SME Promotion Law 2003

Company category	Industries	Staff headcount	Total assets	Business revenue
Small	Industry	< 300	< 40 ¥ m	< 30 ¥ m
	Construction	< 600	< 40 ¥ m	< 30 ¥ m
	Wholesale	< 100		< 30 ¥ m
	Retail	< 100		< 10 ¥ m
	Transport	< 500		< 30 ¥ m
	Post	< 400		< 30 ¥ m
	Hotel	< 400		< 30 ¥ m
	Restaurant	< 400		< 30 ¥ m
Medium	Industry	300 - 2000	40 - 400 ¥ m	30 - 300 ¥ m
	Construction	600-3000	40 - 400 ¥ m	30 - 300 ¥ m
	Wholesale	100-200		30 - 300 ¥ m
	Retail	100-500		10 - 150 ¥ m
	Transport	500-3000		30 - 300 ¥ m
	Post	400-1000		30 - 300 ¥ m
	Hotel	400-800		30 - 300 ¥ m
	Restaurant	400-800		30 - 300 ¥ m

Source: (chen , 2023, p. 04)

On April 23, 2021, the Ministry of Industry and Information Technology (MIIT) and the Bureau of Statistics, in conjunction with pertinent agencies, undertook study and amendments to the Regulations on SME Classification Criteria and prepared a new version for public consultation. This draft reassesses the categorization of firms with a little workforce yet significant business revenue or considerable total assets, which were formerly classified as SMEs. Moreover, it streamlines the industry classification of SMEs, decreasing the categories from 16 to 9. By mid-July 2021, the definitive form of this notice has not been published. (SMES IN CHINA: POLICY ENVIRONMENT REPORT, 2021, p. 03)

Fig.3. Number of Chinese enterprises and SMEs 2016-2021



Source: (China's SME and Micro-Enterprise Financing Development Report, 2021)

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There has been a consistent increase in the number of Chinese enterprises, from 8705.4 in 2016 to 15446.2 in 2021e. Additionally, the percentage of small and medium enterprises (SMEs) has increased from 94.1% to 97.1%. The figures also emphasize the significance of SMEs in China's economy, as they comprise the vast majority of businesses. This suggests a favorable environment for the development of both small and medium enterprises and the overall economy.

3.2. China's Experience with Venture Capital Financing

3.2.1. The State of Venture Capital Financing in Selected Countries Worldwide

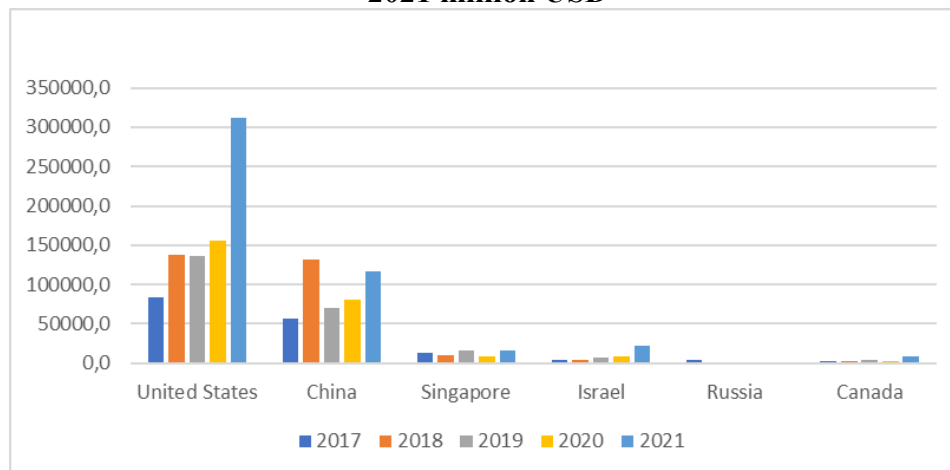
China is one of the strongest countries globally in the field of venture capital, ranking second after the United States in terms of investment volume and market importance. China has successfully built an integrated ecosystem to support small and medium enterprises (SMEs) as a result of multiple factors, including government support, a thriving economic environment, and a culture of innovation.

Table 2. Global Comparison of Venture Capital Financing Volumes During the Period 2017-2021 million USD

	2017	2018	2019	2020	2021
United States	83260,0	137900,0	135600,0	156500,0	311800,0
China	56220,0	131800,0	69650,0	80220,0	116000,0
Singapore	12410,0	10040,0	16660,0	8826,0	15990,0
Israel	4142,0	4806,0	7029,0	8817,0	22040,0
Russia	3762,0	1522,0	284,2	1263,0	1247,0
Canada	2849,0	2596,0	3435,0	2906,0	8837,0

Source: (statista, 2025)

Fig.4. Global Comparison of Venture Capital Financing Volumes During the Period 2017-2021 million USD

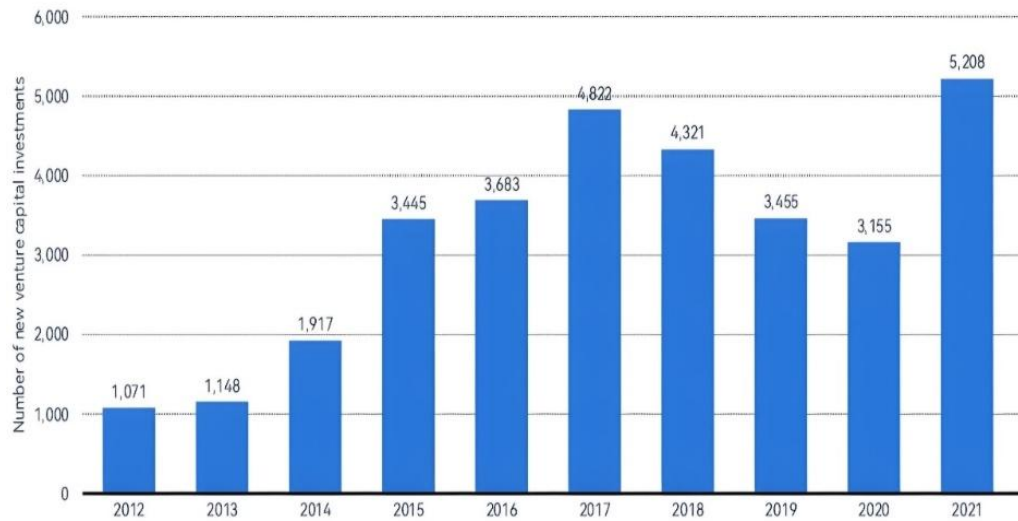


Source: Prepared by researcher based on information provided by table 2

China demonstrates strong performance in venture capital financing, peaking in 2018 at 131,800.0 million USD. Despite a transient decline in 2019 and 2020, China rebounded in 2021, achieving 116,000.0 million USD, demonstrating resilience in minimizing the impacts of the COVID-19 pandemic. In a global context, China ranks second, significantly surpassing other countries, while the United States maintains the lead with a financing volume of 311,800.0 million USD in 2021.

3.2.2 Growth and Dynamics of Collected and Invested Venture Capital Funds in China

Fig.5. Number of new venture capital investments in China from 2012 to 2021

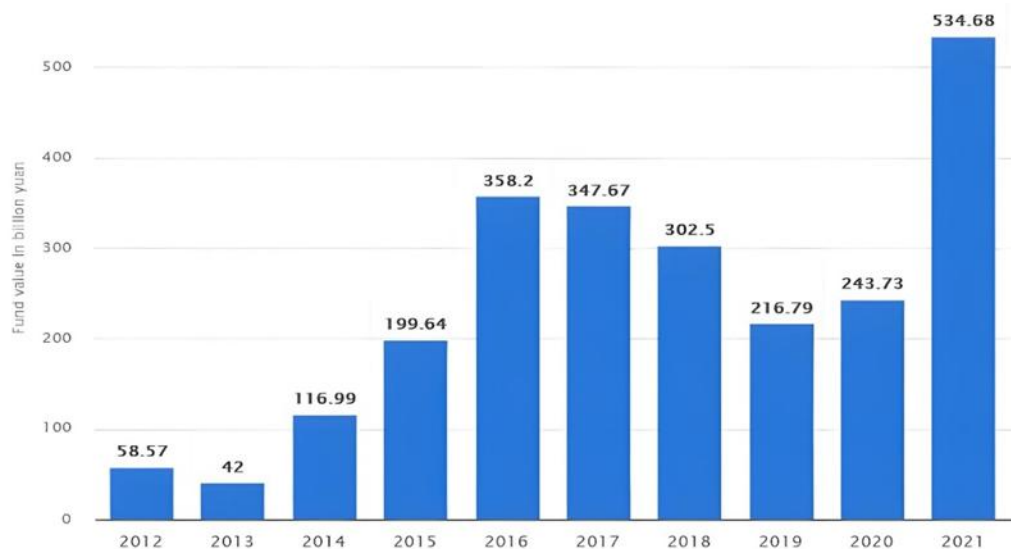


Source: (statista, 2025)

The graph illustrates a significant growth in new venture capital investments in China from 2012 to 2021. Starting at 1,071 transactions in 2012, the figure showed a steady rise, peaking at 4,822 deals in 2017, indicative of persistent growth in investment activity. Between 2018 and 2020, a modest fall occurred, resulting in a decrease to 3,155 transactions in 2020. In 2021, the market exhibited a significant comeback, recording 5,208 transactions, the highest level throughout this timeframe, signifying renewed confidence and heightened investment activity.

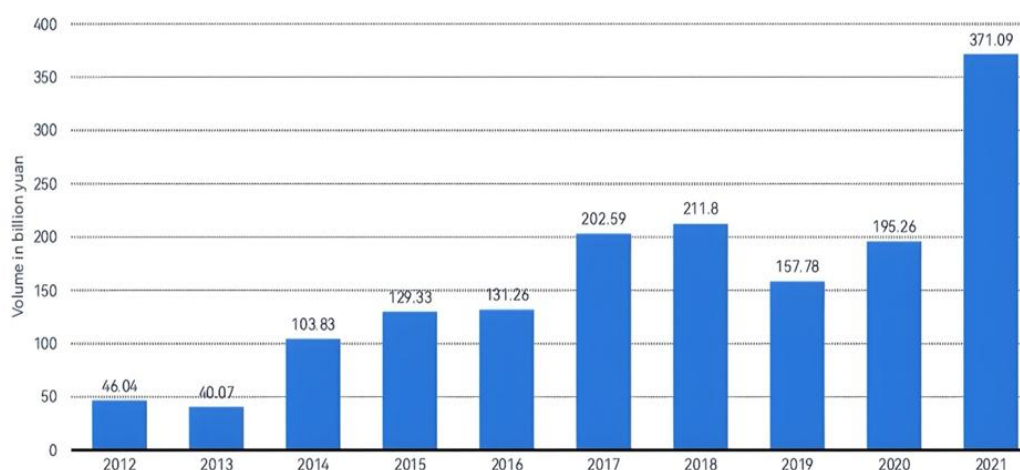
3.2.3 Value and Activity of Venture Capital in China: Funds and Investments (2012-2021)

Fig.6. Value of new funds of venture capital companies in China from 2012 to 2021 (in billion yuan)



Source: (statista, 2025)

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Fig.7. Volume of new venture capital investments in China from 2012 to 2021 (in billion yuan)

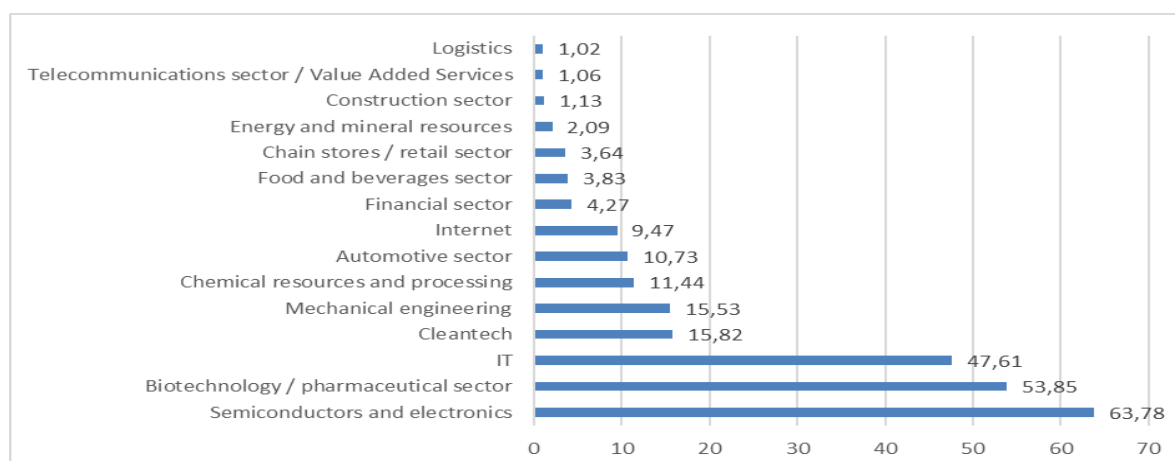


Source: (statista, 2025)

From 2012 to 2021, data on collected and invested venture capital funds in China shown substantial increase, indicating market expansion. In 2012, corporations raised 58.57 billion yuan and invested 46.04 billion yuan, seeing a little decrease the following year. From 2014 to 2015, the market saw significant expansion, with collected money escalating from 116.99 billion yuan to 199.64 billion yuan, and investments rising from 103.83 billion yuan to 129.33 billion yuan. This growing trend persisted until 2018, during which companies raised 302.5 billion yuan and invested 211.8 billion yuan, underscoring a notable escalation in investment activity. From 2019 to 2020, gathered funds diminished to 216.79 billion yuan in 2019, then increasing to 243.73 billion yuan in 2020. Concurrently, investments fell to 157.78 billion yuan in 2019 and then ascended to 195.26 billion yuan in 2020. In 2021, the market exhibited its most robust performance, with enterprises securing 534.68 billion yuan and spending 371.09 billion yuan, indicative of a significant rebound post-COVID-19 epidemic and heightened trust in the Chinese market. This trend indicates that raised funds continually surpassed invested money, bolstering the venture capital sector's ability to finance future ventures.

3.2.4. Volume of venture capital investments in China in 2022, by sector (in Billion yuan)

Fig.8. Volume of venture capital investments in China in 2022, by sector (in Billion yuan)



Source: (statista, 2025)

The graphic depicts the allocation of venture capital investments in China categorized by sector for the year 2022. The semiconductor and electronics sectors led with investments of 63.78 billion yuan, followed by the biotechnology and pharmaceutical sector at 53.85 billion yuan, and the IT sector at 47.61 billion yuan.

Other sectors recorded the following investment volumes: Cleantech at 15.82-billion-yuan, mechanical engineering at 15.53-billion-yuan, chemical resources and processing at 11.44 billion yuan, and the automotive sector at 10.73 billion yuan.

Sectors characterized by reduced investment volumes were the internet at 9.47 billion yuan, the banking industry at 4.27 billion yuan, food and beverages at 3.83 billion yuan, and the retail sector at 3.64 billion yuan.

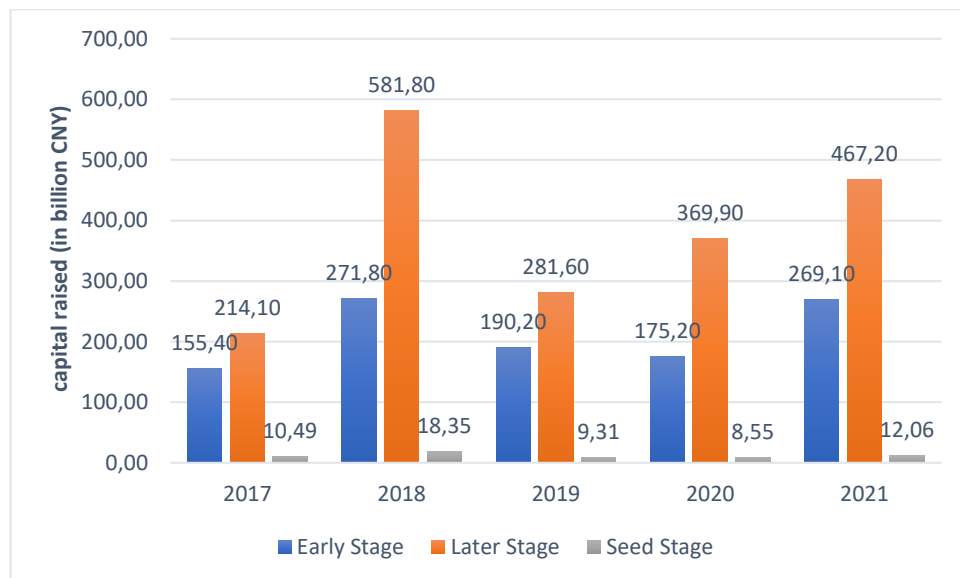
The industries deemed least appealing for investments were energy and mineral resources at 2.09 billion yuan, building at 1.13 billion yuan, telecommunications and value-added services at 1.06 billion yuan, and logistics at 1.02 billion yuan.

3.3. An Analysis of Venture Capital Investments in Financing SMEs in China by stages from 2017 to 2021

This section covers three key elements that highlight the trends of venture capital in financing SMEs in China.

3.3.1. Capital raised for SMEs by stage

Fig.9. Capital raised for SMEs by stage (2017-2021)



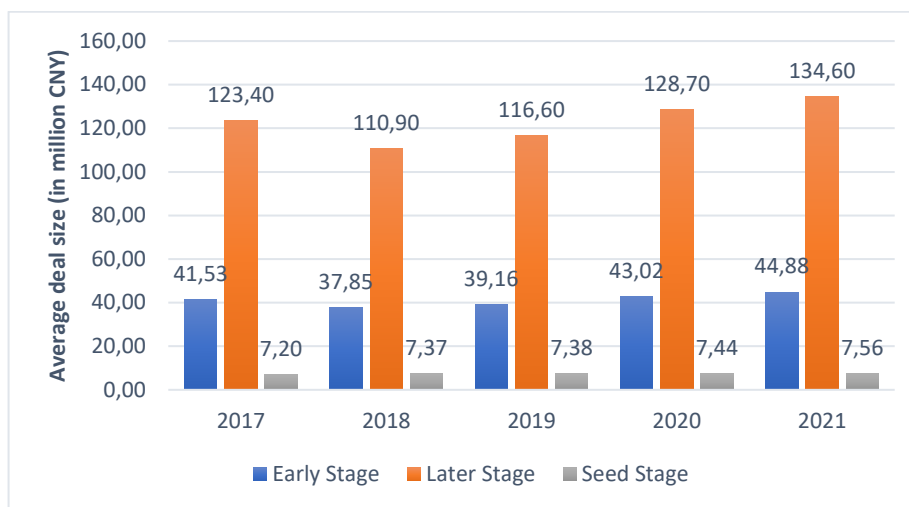
Source: (statista, 2025)

This graphic illustrates the progression of funds acquired across various fundraising rounds. The Later Stage led in capital raised, rising from 214.10 billion CNY in 2017 to a maximum of 581.80 billion CNY in 2018. It then decreased in 2019 and 2020 to 281.60 billion CNY and 369.90 billion CNY, respectively, before rebounding to 467.20 billion CNY in 2021. The Early Stage demonstrated consistent development, with capital raised increasing from 155.40 billion CNY in 2017 to 271.80 billion CNY in 2018, thereafter stabilizing at 269.10 billion CNY in 2021. The Seed Stage shown a

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consistent growth, with capital raised escalating from 10.49 billion CNY in 2017 to 18.35 billion CNY in 2018, subsequently stabilizing at 12.06 billion CNY in 2021.

3.3.2. Average deal size for SMSs by stage (2017-2021)

Fig.10. Average deal size for SMSs by stage (2017-2021)

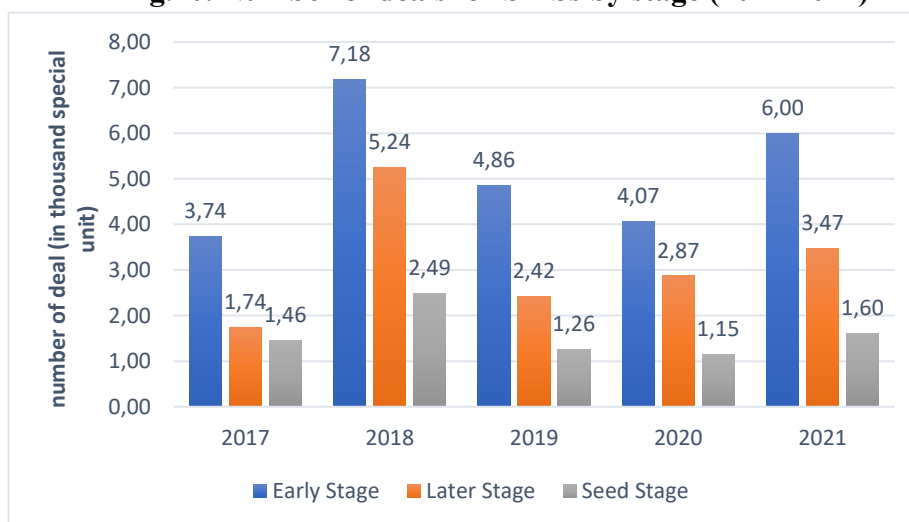


Source: (statista, 2025)

The graphic depicts the evolution of the average transaction size for small and medium companies (SMEs) at various fundraising phases. The Later Stage had the greatest average transaction size, rising from 123.40 million CNY in 2017 to 134.60 million CNY in 2021, with a maximum of 128.70 million CNY in 2020. This indicates increasing investor trust in established firms and their readiness to invest more substantially in them. The Early Stage saw growth, as the average transaction size increased from 41.53 million CNY in 2017 to 44.88 million CNY in 2021, indicating heightened interest in fostering potential enterprises. Simultaneously, the Seed Stage saw a modest rise from 7.20 million CNY in 2017 to 7.56 million CNY in 2021, indicating stability in this phase with ongoing support.

3.3.3. Number of deals for SMSs by stage (2017-2021)

Fig.10. Number of deals for SMSs by stage (2017-2021)



Source: (statista, 2025)

This chart shows the progression of the number of deals across different funding stages. The Early Stage led in terms of the number of deals, increasing from 3.74 thousand deals in 2017 to a peak of 7.18 thousand deals in 2018, before stabilizing at 6.00 thousand deals in 2021. The Later Stage recorded significant growth, with the number of deals rising from 1.74 thousand in 2017 to 3.47 thousand in 2021, reflecting the attractiveness of mature companies for investors. The Seed Stage experienced a modest increase in the number of deals, rising from 1.46 thousand in 2017 to 1.60 thousand in 2021, showing consistent interest in supporting early-stage projects.

3.4. The Success Factors of Venture Capital in China

The success factors of venture capital in China include several key elements:

Supportive Regulatory Environment: The Chinese government has established a conducive regulatory and legal environment for SMEs by implementing policies that stimulate investment in small enterprises, including tax incentives and rules that facilitate the influx of venture capital.

Government Incentives: Government incentives exist for investors that allocate funds to SMEs, including tax breaks and financial assistance for initiatives that foster innovation or provide employment, so augmenting the growth potential of these enterprises.

Economic Stability and Rapid Growth: The continuous growth of the Chinese economy creates a stable climate conducive to the development of SMEs, hence enhancing prospects to attract venture capital. This consistency makes the market more appealing to investors looking dependable prospects.

Technological Innovation: With ongoing technological developments in China, SMEs that depend on technology innovation have enhanced their ability to attract venture capital. Despite these organizations being in growing phases, venture money is essential for facilitating their expansion and development.

Public-Private Partnerships: The close cooperation between the government and private companies aids in the influx of venture capital into SMEs. These partnerships mitigate risks and enhance investor trust in the market.

Flexibility in Investment Strategies: Venture capital in China enhances SMEs' access to investment throughout several phases, from inception to expansion, therefore fostering their growth and enhancing their competitiveness.

Entrepreneurship Culture: The growing entrepreneurial culture in China adds to the success of venture capital. Supporting SMEs fosters entrepreneurial initiatives, hence offering enhanced prospects for venture capital investors to finance these endeavors.

4. Conclusion:

The importance of small and medium-sized enterprises (SMEs) in fostering economic and social growth in China has increasingly been apparent. These enterprises, despite their crucial role in generating employment and promoting innovation, have substantial obstacles associated with restricted sources of financing. They often have difficulties in securing conventional bank loans owing to the rigorous criteria established by financial institutions, impeding their growth and advancement. This generated a need for new non-bank financing methods, with venture capital being a leading option to address this funding shortfall for SMEs.

The Role of Venture Capital in Financing Small and Medium Enterprises (SMEs) in China

China effectively implemented this funding model, fostering a favorable environment for venture capital investment through a succession of supporting governmental policies and laws. Public-private partnerships in China have significantly contributed to improving this climate and securing vital funds for early-stage ventures.

China's experience offers some advice for developing countries seeking to strengthen the role of SMEs in fostering economic growth. This encompasses the need to enhance the economic landscape, promote innovation, provide transparent funding policies, ensure the protection of intellectual property rights, and fortify collaboration between universities and economic institutions to foster innovation. Moreover, efforts should be established to create public funds that allocate resources to venture investments, therefore supporting early-stage enterprises that fail to capture the interest of conventional investors.

thus, the Chinese experience offers a model that many developing countries can use to encourage the expansion of SMEs and foster innovation, therefore promoting integrated and sustainable economic development.

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