

# Promoting the Growth of Medium and Small-sized Enterprises through the Development of Medium and Small-sized Financial Institutions

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This paper attempts to examine why China's medium and small-sized enterprises (MSEs) cannot obtain adequate financial services and to propose remedies for the situation. The paper first analyzes the importance of MSEs in China's economic development. The labor-intensive MSE is the most dynamic element in China's enterprise system due to the labor-abundant and capital-scarce nature of endowment structure at the current stage of China's economic development. However, during the planning economy period that followed the "leap forward" strategy, the government established highly concentrated big banks to support the development of capital-intensive large enterprises, which were inconsistent with the comparative advantage of Chinese economy and are non-viable in a market system. Large sized financial institutions are inherently not suitable for providing financial services to MSEs. Therefore, China's MSEs are under served financially. The paper argues that the costs and efficiency of providing financial services to different sizes of enterprises are different, depending on the structure of financial system. The paper concludes that the development of medium and small-sized financial institutions is the way to overcome the difficulty in providing financial services to China's MSEs.



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