

The Financing Challenges of Startups in China

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Abstract

This research aims to investigate the challenges of financing startups in China. This paper is intent to explore the main difficulties faced by startups in China, and discuss the financing resources of startups in China. In literature review, it evaluates the challenges of Chinese financing startups from three perspectives, namely financing difficulties of Chinese small and medium sized enterprises (SMEs), the plight of venture capital (VC) in China and the financing difficulties of Chinese graduates entrepreneurship. This paper tries to figure out the countermeasures respectively for Chinese startup development.

Key words: Startups; Financing; SMEs; Venture capital; Graduates entrepreneurship

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INTRODUCTION

(1) Context of Economy in China

Chinese economic policy used to kept China under condition of poor, stagnant, centrally controlled, vastly inefficient and relatively isolated from the global economy 36 years ago. With the reform and opening up policy in 1978, China began to open up its domestic market and entered high-speed economic development phrase. China thus gradually became as the world's second largest economy, largest trading economy, second largest

destination of foreign direct investment (FDI), largest manufacturer, and largest holder of foreign exchange reserves, with real annual gross domestic product (GDP) growth averaging nearly 10% in last decade (Morrison, 2013). In recent years, China has emerged as a major global economic and trade power. Although China has been witnessed with high-speed development of GDP, the science and technology research ability as well as the development and innovation of technology still demand further development to better compete in the worldwide.

(2) Background of Graduates' Entrepreneurship in China

China is the world's most populous country. The population in China is about 1.3 billion by the year of 2010. Large population implies a large potential market in China; however, it also leads to heavy employment pressure in Chinese society. According to statistics, there are approximately 7 million student's finishes their course and graduate from colleges and universities, and the employment rate within six months after graduation reach around 87.5% (Zhao, 2011). Under such circumstances, some graduates try to find a way out for themselves and choose to start their own business, thus to reduce the employment pressure. In recent years the self-employment consciousness among college students are increasing and the students are less likely to rely on parents or schools or wait for opportunities. Instead, they tend to take initiative to look for new chances for themselves.

(3) Research Significance of this Paper

Since China is striving for a great nation in scientific research and innovation, it can be seen that the growing development of startups has significant influences. This paper figure out for solutions for Chinese start-ups' financing problems, which can encouraging graduate's entrepreneurship and launch support to development of startups. These all exert a positive effect for modernization of China in a long term.

(4) Objectives of this Paper

This paper is intent to explore the main difficulties facing startups in China, and discussing the principle

financing resources of startups in China. More specifically, this paper tries to analyze challenges of Chinese financing startups from three perspectives, namely financing difficulties of Chinese small and medium sized enterprises, the plight of venture capital (VC) in China and the current financing difficulties of Chinese graduates entrepreneurship. At last, countermeasures are concluded respectively and recommendation for Chinese startup development will be provided based on this research.

1. LITERATURE REVIEW

1.1 Main Problems Faced by Startups in China

1.1.1 The Imperfect Education System and Conservative Lifestyle

The education system is one of hindrance for startups. In college, students are usually trained with advanced techniques but lack of marketing, sales and operational ability and leadership skills needed to advance their own enterprises. In addition, conservative lifestyle also contributes as one of obstacles. As a culture of family remains, family remains skeptical to change and prefer options that are able to provide a steady income rather than engaging risk. This places pressure on the budding entrepreneur who fall victim to the dichotomy of providing for the family instead of following some “whimsical” dream (Au & Kwan, 2009).

1.1.2 Lack of Support Networks and Entrepreneurship Ecosystem

One of the major challenges is that there is severe shortage of startup support networks and entrepreneurship ecosystems. In many western countries, there are special institutions serve as incubators, startup accelerators, startup competitions for entrepreneurs to put their ideas to test and obtain necessary guidance. In China, incubators, startup accelerators, and startup competitions are slowly making their way into the first tier cities, but there truly are not enough to go around. As a result of this shortage, many startups fail at the “idea” stage of their business.

The ecosystem usually does not directly provide funding to start-ups; they just serve as platforms that link investors and entrepreneurs so that entrepreneurs can obtain necessary funding to test out their ideas. The lack of these facilities makes it more difficult for entrepreneurs to find investors. In return, investors are more difficult to find entrepreneurs as well. Even if entrepreneurs are able to find investors, they will face an entirely different set of challenges. Chinese culture inherently does not promote entrepreneurship. Conversely, it encourages stability, employment at large state-owned or private organizations and, above all, teaches people to be risk averse. Even if young Chinese individuals have intention to start their own business, their family usually places a considerable amount of negative pressure on them to forget entrepreneurship and look for a “stable job” instead.

1.1.3 Chinese Angel-investors are not Really “Angel-investors”

Although there is seemingly a great number of funding available from various funds and investors to help new businesses, the focus are on “mature business”. Investors in China are typically much more risk averse than their western counterparts. As a result, they tend to invest companies in more mature stages, leaving startups in their very early Greenfield stages without necessary funding and guidance (Du & Girma, 2012). In the west, angel investors, though with limit sums, typically invest in very early stage projects (Pukthuanthong & Walker, 2007). This is a significant part of the investment value chain, because this enables startups to get their ideas off the ground with necessary funding. This creates a significant gap and opportunity in the investment field to invest in very early stage companies. If China’s entrepreneurship ecosystem is to thrive in the future, this gap in early stage funding could therefore be resolved.

1.1.4 Reliable Human Talent is very Difficult to Come By

A saying goes that “There are many people in China, but there is still a shortage of talent”. It means that it is very difficult in recruiting, retaining right staff for any company or department. Compared to large mature enterprises, small startups are in an exponentially more difficult dilemma and encountering much severe challenging in recruiting due to the reason that it cannot pay high salary to its employees or offer any career development opportunities aside from building their business from the ground up. What is worse is that working for a startup in China is far less glamorous than working for a startup in the west due to culture differences. It is a disaster for a company who needs to execute on their business plan with minimal errors to just survive the month.

1.2 Main Financing Resource of Startups in China

China’s financial system has been a topic of debate for a long period of time. On one hand the realization of country’s economic growth has been strongly linked to its financial system, while on the other hand it has been criticized on the issue that the main driver of the economic growth is public sector that heavily depend on the informal finance and mechanisms for governance as compared to the formal type. Therefore normally the small startup firms in China can not enjoy sufficient support from their financial system. The main principle embedded in the Chinese economic policy is that “Grasp the big and let go of the small” which means it primarily focus on large firms and keeps the issue of small firms out of discussion.

It has been found out that the main reason for the small startup firm financing constraint is the issue of information asymmetry (Garcia-Fontes, 2005). This is why these firms are completely unaware other sources of finance such as angel investors or venture capitalists. As a result, the primary source that startups can resort to

is owner's capital (Chavis, Klapper, & Love, 2011). The financial system in China mainly provide finance for the large size firms and emphasizing less on the small startup businesses, which means that formal sources of finance is not a good choice of the small startup firms. Hence the entrepreneurs have no other option other than their own capital or retained earnings as the primary source of finance for the startups (Scholtens, 1999). The startups therefore rely majorly on the owner's capital in order to meet the initial financial needs. However the risk of failure is comparatively high since the additional financial needs (follow-up) finance could threaten the existence of small startup firms. Though the Asian VCs have shown considerable progress in last couple of decades, the main concern many researchers have agreed with is that much of the investment in Asian countries should be considered as private equity investments. Private equity investments are the investments in the equities of the firm that are not traded publicly. As a result studies have revealed that in addition to the financing option, the traditional VC investment practices are also not incorporated and effective when it comes to China. Hence the Chinese startups are less replied on the VCs and pay more weight to the owner's capital as the first source of finance for their startups (Tan, Huang, & Lu, 2012).

According to Beck, Knut and Maksimovic (2008), 29.93% of the Chinese firms mainly depend on external finance in the form of equity, development banks, commercial banks, supplier credit and leasing arrangements. Among this, external financing banks dominate 10.17% of finance provision, followed by 2.41% by equity and supplier credit each, 1.63 % by leasing agreements and 4.63% by development banks while the rest come from the internal sources of finance. Hence it is found that internal sources are the primary options available for Chinese startup firms to fulfill their financial needs in the startup and later stages of the firm lifecycle.

1.3 Main Financing Difficulties of SMEs in China

1.3.1 Problems from the Small and Medium Sized Enterprise

(1) The small and medium-sized enterprise property right is not clear, which hinder the corporate financing.

In China, a number of small and medium sized enterprises have problems related to property rights due to the complexity of its composition. Registered Limited Liability Company may become a shell especially when the enterprise repays the debt of difficult cases, which is the evasion of debt. These make small and medium-sized enterprises much more difficult to apply for loans, because financial institutions are less likely to trust the enterprise loan guarantee provided as well as the repayment ability. This may lead to increase of loan risks, make the loan more difficult to control. Therefore the small and medium sized enterprise is more difficult to get a mortgage, which restricts the financing ability.

(2) The small and medium sized enterprise has weak credit concept and low credit performance.

Generally small and medium sized enterprise credit rating is not high in China. Data shows that, in China, more than half of small and medium sized enterprise financial is of poor management, in which some unreasonable phenomenon commonly exists such as "off-balance-sheet business" and "check by cash". Banks are difficult to get the real situation of the corporate finance, which affects the bank loans and decision making. A case in point is that some small and medium enterprises have tax evasion, which resulting in the loss of credit funds, and further damage to the credit level.

(3) Poor ability to resist risk and slow development.

Compared with large enterprises, the ability to resist risk of small and medium sized enterprises is significantly weaker. The main reason for small and medium sized enterprises have slow development pace is their financing difficulties. This means that they tend to lack of enough funding for enterprises to further expand production, improve research and development ability, product quality and competitiveness. Furthermore, according to, the current situation of financing difficulties are caused by the variability of small and medium sized enterprises and large business risk, in the money supply tension, under the condition of asymmetric information, and in a vicious circle.

(4) Limited guarantee agencies cause mortgage difficulty.

In terms of guarantee, many guarantee agencies adopt membership system, where small and medium-sized enterprises need to pay some deposit to become the member. However, the warranty procedures are quite tedious, and guarantee fee, valuation fee, asset registration fee are very high, which increase the financial burden and lead to inability to get guarantee for small and medium sized enterprises (Wang, 2004). In terms of the mortgage, if the enterprise intent to apply for property mortgage, they generally need to process the multi-channel procedures, including property evaluation, registration, insurance and notary procedures. This required small and medium enterprises to manage with many departments, provide a great amount of materials, which is time-consuming particularly in today's information society with opportunity fleeting. In addition, the cost of mortgages and evaluation is high while the mortgage rates of bank to enterprise are low, which makes the amount of loans applied by small and medium sized enterprises through mortgage are small.

According to the survey of Chinese Chambers of commerce and industry, the first restriction factors of China's SMEs are the financing problem. 46% of the SMEs have the experience of loan from the bank, but the result is very bad. It can be seen from the Figure 1.

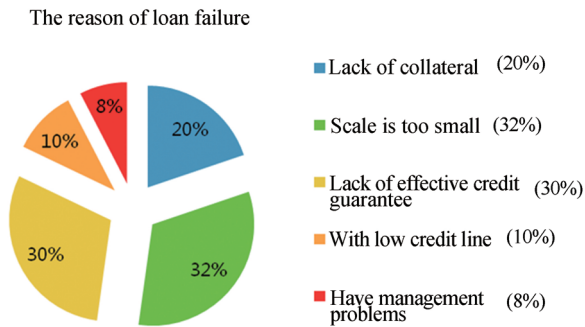


Figure1
Ratios on the Reasons Why the SMEs Fail to Loan

1.3.2 The External Causes

(1) Limited profits make banks reluctant to lend to small and medium-sized enterprises.

The first principle of commercial bank management is profitability. The character of Small and medium-sized enterprise loan from the bank is small amount, but high frequency. In a short period of time, the management costs are relatively high for banks to loan to small and medium enterprises. At the same time, some small and medium-

sized enterprise have internal problems, which makes the bank loan to them have difficulties in tracking supervision and mortgage security maintenance. High risk, high cost and limited profits, makes it is difficult for small and medium enterprises to apply for a loan from the bank.

(2) The capital market and private financial institutions develop slowly.

The financing channel of China’s small and medium-sized enterprise is narrow. At present the main source of funds is its own accumulation. Since the formal financial system unable to meet the financing needs of small and medium-sized enterprises, some of them turn to private lending market financing, and become the main participants in the private lending market.

There is serious discrimination for small and medium-sized enterprises. As shown in Table 1, the scale of loan accounts for small and medium-sized enterprise only is about 8% of the total amount of bank credit. National township, private, “three-capital” enterprises short-term loans accounted for only 3.97% of the total. This suggests that the financial institution is very demanding for small and medium-sized enterprises.

Table 1
Financing Credit Table of China Commercial Bank in 2009

Project	First quarter	Second quarter	Third quarter	Fourth quarter	Whole year
Loans to township enterprises	30.66	27.96	29.41	28.20	116.23
Loans to foreign-funded enterprises	3572.84	3603.78	3721.90	3621.13	14519.65
Loans to the private enterprise	4333.61	4886.99	5770.68	6760.68	21751.96
Total loan to SMEs	7937.11	8518.73	9521.99	10410.01	36387.84
Total amount of banks short-term loans	91827.49	96141.35	100066.40	100346.52	388381.80
Loan proportion	8.64%	8.86%	9.52%	10.37%	9.37%

1.4 Main Problems of Chinese Venture Investment

In the process of development of China’s small and medium-sized enterprises, the internal financing is the main source of funds. Along with the increasing length

of operation, internal financing is on the decline, but the proportion is still high. As shown in Table 2. China’s small and medium-sized enterprises financing structure is not reasonable. The government, the enterprises should take some effective measures to solve this problem.

Table 2
Financing Structure in the Course of Development of Small and Medium-sized Enterprises in China

Operating time	Internal financing	Bank loan	Non-financial institutions financing	Other sources of financing
<3 years	92.4%	2.7%	2.2%	2.7%
3-5 years	92.2%	3.5%	0%	4.4%
6-10 years	89.0%	6.3%	6.3%	3.2%
>10 years	83.1%	5.7%	5.7%	1.3%

1.4.1 The Government Policy Is Limited in the Support and Help of Venture Investment

Chinese government lacks overall strategic planning of venture capital and its legislation is lagging behind its development. Under such circumstances disorder produces

a number of alienation violations (Ahlstrom, Bruton & Yeh, 2007). Besides, government lacks clear tax incentives, no subsidies for the investment losses, technological development and personal venture investment.

1.4.2 Urgent Need to Improve the External Operating Environment

Capital source channel of venture investment in China is narrow, which is characterized by limit personal investment strength, scale and risk tolerance. Though institutions and pension funds are main sources of funds to finance in the west, it is generally not allowed to invest directly in China (Bruton & Ahlstrom, 2003). Thus it leads to the overall small scale of capital and lack of growth of enterprise market. In addition, the existing property rights of trading behavior is not standard, which makes the venture capital exit channel not unobstructed, and difficult to achieve normal circulation of investment and capital appreciation. Moreover, other problems exist including low technology trading market network communication efficiency, communication barriers between entrepreneurs and venture capitalists, science and technology resources difficult to flow effectively, technical development of blindness and venture investment risk increase (Ahlstrom & Bruton, 2006); relatively scarce in the service of professional intermediaries of venture capital, lack of good service and coordination venture capital etc.

1.4.3 The Internal Operating Mechanism Still Needs to Improve

(1) The return rate of Chinese venture investment is only 20%-30%, which lacks effective incentive mechanism. And it fails to encourage the enthusiasm of enterprises to invest.

(2) The enterprises lack constraint mechanism in the operation and management, which leads to functional alienation. Many companies invest money into stocks, real estate, futures, and even strength, etc.

(3) Small and medium sized enterprises are difficult to list on the gem in Shenzhen and Shanghai exchange or overseas. Equity transfer is also difficult because the property right relationship with former unit are not clear, which makes it difficult to achieve adding value (Wright, 2007).

1.5 Main Financing Difficulties of Graduates' Entrepreneurship in China

1.5.1 The Limited Industry Choice

Currently, some local rules and regulations in China state that entrepreneurs can only be engaged in individual business; they are not allowed to start a company or limited in some specific industries. However, industries that are allowed for entrepreneurs such as manufacturing, transportation, catering and service industry are beyond the college students' employment demand. The main reason is that they require considerable business cost and social resources when entrepreneurs engage in those industries, and usually the normal college students are unable to afford.

1.5.2 The Demanding Loan Conditions

Bank loans have a number of restrictive conditions. The bank loan review is very strict when individuals apply

for the loans. Since many college students just starting a business, bank loan approval department may doubt their repay ability, thus it is difficult to apply for loans that they need. If applicants have guarantee who can offer a certain economic strength it will be easier to apply. Besides, bank loan interest rate floats up to twice as often as the benchmark interest rate, which makes students tend to choose other financing way. Moreover, during the process of application, the applicants are required to bring ID card, diploma, employment registration certificate of the original, which makes the formalities very complex.

1.5.3 Limited Financing Experience

At the beginning of the business, most of the graduates are lack of social experience and management ability. They may go into erroneous zone of venture financing, and eventually lead to failure. Such as the following financing errors: Error 1: Eager to make companies start and raise money, and sell a large stake, technologies or creative. If some core technology owners unhappy with the operation they might break their initial investment agreement, which may make the company notorious in the capital market. Error 2: Even if the investor is unable to provide value-added services and guidance, they still decide to cooperate. Error 3: Some irresponsible risk investment may be interruptions, leads to operational problems. Therefore, at the early stage of startups, entrepreneurs should introduce really powerful investors, even if that means temporarily give up some profits.

1.5.4 Financing Channel Is Too Narrow

In addition to state loans, when it comes to the whole business environment, the current college students venture financing channels are narrow. This mainly includes three aspects:

Family support. The premise is that the family has enough money. However, for most families, it is uneasy to support their children's business after sending them to school. For most graduates, they choose to apply for a job first, and start a business after the original capital accumulation.

Venture partners financing. Partners financing is just like the bank loan and family support, which is also difficult to obtain. Therefore, it tends to make college students conduct their business tasks on a tight budget and exert a negative influence on their business.

Venture capital. Most venture capitalists are skeptical, and reluctant to offer this opportunity to students, especially university graduates entrepreneurial. Moreover, China still lacks a sound risk investment mechanism. Therefore, for college students, venture capital seems not to be a favorable choice.

2. FINDINGS AND DISCUSSION

According to the survey of the Chinese entrepreneurs association, shortage of funds is causing serious impact on the development of entrepreneurial companies. It even could suppress the birth of start-up companies. As shown in Figure 2. According to the size of the degree

of influence: to expand the scale of production (61.8%); Technical equipment upgrades (47.1%); Develop new market (35.6%); Add new project (35.4%); New product research and development (34.8%). Therefore, to take measures to improve the financing channels of venture enterprises and policy, it is important for China.

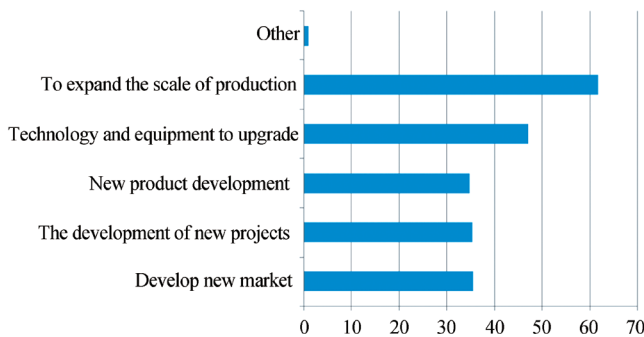


Figure 2
The Influence of Lack of Funds for Small and Medium-Sized Enterprises

2.1 Countermeasure to Reduce the Financing Difficulties of SMEs in China

The government should regard helping SMEs and employment as the main objective instead of caring about the GDP growth. Moreover, the government ought to establish a better financial environment for SMEs' financing, SMEs' credit guaranty system and policy-based financial institutions. Chinese government should promote the development of guarantee industry. Due to the absence of efficient precautionary measures to credit risk and anti-risk system, many credit guarantee corporations face unstable environment. It is clear that the market failure could be remedied if the government establishes guarantee institutions.

China should continue deepening mercerization reform of commercial Banks, and establish various financial institutions co-existing commercial banking system to promote competition and improve operation efficiency of financial institutions. First of all, the government should formulate relevant policies to encourage commercial banks to help SMEs, and set up new financial institutions that aim to help SMEs' financing. Secondly, the government should set standards for informal financing as soon as possible, remove obstacles that prevent private capital from involving in setting up financial institutions. Thirdly, the government should gradually improve interest rate formation mechanism, which is determined by supply-demand relation. The operation of interest rate mercerization will help correct and eliminate distortion of credit funds price, optimize financial resource allocation efficiency, and force state-owned banks to enhance competitiveness.

The government should set standards and develop the multi-level financial market. In the current Chinese Security Markets, the government needs to transform the financing function into capital allocation function as soon as possible, and regards capital allocation optimization and enterprise institutional innovation as stock market's

primary function. Meanwhile, by developing the multi-level financial market and continuing the construction of Growth Enterprise Market, the government is able to provide SMEs which have high growth, small scale, and weak ability for resisting risk, with more financing opportunities. The government should prepare and improve positively regional and local securities trading center, allowing some normative private companies with good profits to trade at the counter and establishing over-the-counter market. To provide SMEs with plenty of financing opportunities, the government should strive to develop corporate bond market, and allow some SMEs, which hwave good operating conditions, to enter the bond market for financing.

SMEs should strength themselves and improve their overall quality. At present, it is common that Chinese SMEs have several universal problems, such as having unsound corporate financial system and inaccuracy financial reports. SMEs should build modern enterprise institutions, and improve the standardization of the enterprise's financial system and enterprise information transparency. Moreover, SMEs should offer effective financial reports with high authenticity to help commercial banks make judgments. Besides, SMEs should pay more attention to the credit consciousness and set up a good credit image to financial institutions. When the credit level of enterprise has risen, financial institutions will change their impression toward SMEs, and banks will change their credit orientation.

2.2 Countermeasure to Develop VC in China

(1) Tries to widen the channel of the venture investment funds. Venture investment funds should be developed in these aspects, namely individuals, corporations, financial institutions and foreign capital, etc.

(2) Improve the organization form and management mode of venture investment. Experience from western countries, venture capital firms for small business and venture investment funds are the two basic types of venture investment. Venture capital firms for small business are usually with semi-official nature, enjoying the preferential policies and take the policy function. In China, the company with government background can be in the direction to the small business investment company. Non-state companies can serve as a fund sponsors or a receiver, a venture investment funds, and gradually become the mainstream of venture investment. Venture investment funds as the mainstream of modern venture capital form and advanced forms, it is imperative to vigorously develop in China. China's individual investors funds have limited size and low risk tolerance, most belong to the risk of rendering, and even risk evader, which cannot afford to win, so venture capital funds can only adopt the method of combination of private and public offering. For venture capital organization, management mode and the different methods of investment scheme evaluation, it can follow two different modes to conduct investment management, which are direct investing and managing investing.

(3) Specifications in the field of venture investment

agencies. Diversify the intermediary institution is the important guarantee of venture investment to normal operation. The system of the venture investment should be perfect in different types of intermediary agencies. Venture investment industry because of its characteristics of high risk, high income, in addition to the social public intermediary institutions to provide services, the need for venture investment in various fields and participants and set up a series of professional intermediaries. Venture investment intermediary service quality depends on their quality and corresponding institutional constraints. The government should first establish industry association, standards, certification bodies such as government authority, and other intermediary agencies qualifications. All kinds of professional intermediaries to the promoter, shareholders, partners or experts in the field of business managers must be related. Intermediary institutions should make corporations legal entity or partnership.

(4) The role of government to adjust venture capital. Government should make an overall plan for venture capital to develop, organize relevant departments and experts to draft the promoting and regulating the corresponding laws and regulations of the venture investment, using propaganda tool to build public expectations. Also government should offer the special encouragement and support to venture capital, and create a good policy environment, institutional environment and financial environment for VC.

2.3 Countermeasure to Reduce Financing Difficulties of Graduates' Entrepreneurship in China

A multi-level and diversified financing system for graduates' entrepreneurship should be build urgently. First, perfect the micro-credit loan policies. College students have difficulties in obtaining micro-credit loans because of the strict conditions, limited amounts and cumbersome procedures. The government should perfect the micro-credit loan policies, simplify lending procedures and reduce the excessive restrictions on entrepreneurship projects. The interest rate of micro-credit loan should be appropriately flexible to incentive financial institutions to issue micro-credit loans.

Second, construct the credit guarantee system. The role of government guarantees should be played fully

in university graduates "entrepreneurship". University graduates "entrepreneurship" guarantee fund should be established. Small loan guarantee agencies should enhance safety risk compensation to college students who are keen on entrepreneurship, such as extraction of risk reserve according to a certain percentage of after-tax profits, deduction of income tax according to the part of compensatory damage actually occurred.

Third, establish the fund for college students "entrepreneurship" financing from government, universities and enterprises. Learning the model of "Baillie National College Students "Entrepreneurship Fund Project", the government should set up the fund for college students "entrepreneurship", joined with enterprises. The enterprise could name the title of entrepreneurship projects and approve the applying entrepreneurship projects and issue the interest-free loans or other supporting funds. Corporate philanthropy should be encouraged, such as the establishment of the "Graduate Entrepreneurship Philanthropy Foundation", to be combined with the actions of supporting students "entrepreneurship". The government should give preferential policies for those companies involved in the philanthropy project.

Fourth, encourage venture capital to support college students "entrepreneurship projects". Private investment should be guided into the area of venture capital and angel investment, encouraged to establish venture capital investment fund for college students to support the students' entrepreneurship projects. In order to truly solve the financing bottlenecks in the early phase of entrepreneurship, angel investment should play a more active role in supporting entrepreneurship and the fund should be guided to move to the early and middle phase of entrepreneurship by using the incentive measures including tax incentives and financial support. Local governments should actively build communication platforms for investor and entrepreneur and establish a project risk and asset assessment mechanism to facilitate students to obtain venture capital through business plan competitions.

China should adopt a variety of preferential measures to encourage college student entrepreneurship. At present, Chinese graduates venture capital financing are mainly from the following way, such as Table 3.

Table 3
The Main Way of Graduates start a Business to Raise Funds

Graduates venture capital source table	
Self-raised funds from family and friends	Self-raised funds from family and friends are one of the main choices of graduate entrepreneurs. 82% of venture capital funds are come from individuals and the family in China
Application for small business loans	China provides the small business loan guarantees for entrepreneurs, encouraging graduates entrepreneurship. In addition to supporting policies of the country, various local governments also have relevant preferential policies
Start-up loan from the YBC	YBC is made by the communist youth league central, all-china youth federation, federation of China federation of industry and commerce. The purpose is to help the youth entrepreneurship. The project provides interest-free unsecured loans to 18 to 35-year-old youth and the loans are at about \$30000 to \$50000
Entrepreneurship competition	Entrepreneurship competition provides participants with abundant funds and projects. It is a challenge for graduates, and the process of learning and receiving. Even if they don't win, the competition also provides good jobs for graduates

CONCLUSION

From this paper, startups are suggested to be the important way to improve the modernization of China by encouraging graduate's entrepreneurship and solving employment pressure in Chinese society. Furthermore, startups have significant impact on the development of SMEs and scientific research and innovation of company in China. However, Chinese startups are facing some major financing challenges, which can be shown in three aspects, namely financing difficulties of SMEs, the plight of venture capital (VC) and financing difficulties of Chinese graduates entrepreneurship. In order to improve the environment of financing startups in China, enhance the Chinese startups development capacity and encourage entrepreneurship to create more employment opportunities, some countermeasures should be taken in the future mainly from the Chinese government and startups themselves.

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