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# Research on the Role of Platform Economy in Credit for Small and Micro Enterprises - A Case Study of Alibaba

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**Abstract:**

In the financial market, the financing needs of the micro-economy are concentrated at the long tail, and its development has always been a focus of social attention. In recent years, China has made significant efforts to address the financing challenges faced by small and micro enterprises. Despite these efforts, the financial support allocated to these enterprises remains disproportionate to their economic contributions. Unlike large and medium-sized enterprises, small and micro enterprises (SMEs) still struggle to obtain adequate financial resources, highlighting the incomplete coverage of the current Chinese financial system. As a result, these enterprises continue to encounter difficulties in securing necessary funding. Fintech can help these enterprises choose financing platforms and methods that match their development, enrich their financing channels, improve the loan issuance efficiency of financial institutions, precisely support their development, and ensure that the interests of stakeholders are realized. The report from the 20th National Congress emphasized the importance of establishing a supportive environment for the advancement of technology-driven SMEs. It also advocated for fostering the growth of specialized and innovative companies. This initiative sends a clear signal encouraging SMEs to innovate independently, which will undoubtedly have an important and far-reaching positive impact. However, SMEs are financially fragile, with prominent contradictions between their financing needs and the financial supply side. The integration of finance and technology has changed the operational mechanism of the financial industry. Fintech companies, through the application of emerging technologies, have expanded their business scope to long-tail small and micro clients, bringing new platforms for financing to these enterprises. This paper studies the case of Alibaba's "Digital Hybrid Trade Show" initiative to further explore how fintech can be more effectively applied to the financing of SMEs, thereby aiding their stable and healthy development.

**Keywords:** Fintech, Small and micro enterprises, Credit financing, Credit financing

## 1. Introduction

The financial industry, as a core component of the modern economy, plays a vital role in the development of a country's real economy. Economic crises within the financial system can severely disrupt normal economic operations. SMEs (small and medium-sized enterprises) have consistently garnered significant social attention. With the economic environment becoming increasingly intricate, changes in external factors are increasingly influencing the operations of SMEs. In recent years, there has been a global surge in fintech investments, which continuously challenges the traditional business models of SMEs. The rise of fintech presents substantial challenges to the operational methods and strategic thinking of SMEs in the financial sector, potentially altering their traditional operational frameworks and developmental trajectories. Hence, the rise of fintech significantly impacts SMEs.

On one hand, emerging technologies like financial technology (fintech) are quietly reshaping the financial industry's development mode, catering to the diverse needs of SMEs and offering improved financing methods. Concurrently, the rapid advancement of fintech underscores its significant potential in financial service models, while also highlighting inherent risks in service enhancements. Addressing these challenges provides decision-making insights and practical guidance to expand the financing avenues for small and medium-sized enterprises.

To delve deeper, a literature review approach can explore specific fintech-driven financing models for SMEs by analyzing numerous domestic and international documents. Case studies, such as Alibaba's example, further illuminate fintech's impact—both advantages and disadvantages—on these enterprises. By integrating relevant data, this approach forecasts future development trends and proposes strategies under the fintech backdrop.

In conclusion, elucidating fintech's role in small and micro enterprise financing requires a clear logical sequence from various perspectives. Investigating specific financing models under fintech and exploring more effective fintech applications are crucial for fostering their stable and healthy growth.

Furthermore, innovative research perspectives are essential. Against the backdrop of state encouragement for small and micro enterprise development, this study explores how enterprises utilize fintech to serve these entities—a novel contribution. Using Alibaba as a case study, the company has pioneered innovative credit financing paths for SMEs in financing, knowledge dissemination, and marketing realms under fintech's influence. This exploration assesses Alibaba's fintech-driven impacts on small and micro enterprise credit financing through operational processes, financing models, and industry comparative analyses, offering insights for fintech enterprises to bolster small and micro enterprise credit financing.

## 2. Characteristics of Platform Economy

Platform economy denotes virtual or physical marketplaces where platforms facilitate transactions between supply and demand without manufacturing goods, earning revenue through fees or price differentials. As the internet deeply integrates with industries, platform models in industry development diversify, evolving from a commercial phenomenon to an economic form. They facilitate sharing of information, assets, and service resources across industries, overcoming traditional drawbacks like information asymmetry and excessive competition, thereby boosting asset utilization efficiency and fostering collaborative innovation.

### 2.1 Bilateral or multilateral market

Platform enterprises mediate between consumers and merchants. The platform economy establishes a division of labor facilitated by bilateral market effects and platform clustering. Numerous participants operate within these platforms with distinct roles, each contributing to its operation. Platform operators gather social resources and partner with suppliers to offer quality products, expanding user bases through popularity and maximizing platform and service value for all participants.

### 2.2 Value-added

Platform enterprises must deliver services that yield benefits for both consumers and merchants. Their market position hinges on generating value within bilateral or multilateral markets, thereby attracting users and enhancing platform loyalty.

### 2.3 Network externalitiy

Platform enterprises facilitate transactions between buyers and sellers, enhancing platform attractiveness with increased participants on both sides. This demonstrates strong network externalities, amplifying platform value. The allure of the platform economy lies in its cross-network externalities, where user scale growth on one side significantly enhances the utility or value for users on the other side. With network effects, platform enterprises exhibit increasing returns to scale.

### 2.4 Openness

The hallmark of the platform economy lies in its ability to attract diverse resources through ecosystem development. This necessitates platform openness—wherein the platform's value increases with a growing number of partners. Nowadays, Chinese internet enterprises are on the path of openness, with platforms like Taobao, Tencent, JD.com, Alibaba, and Baidu joining the ranks of openness, making these platform enterprises more competitive.

## 3. Case Study: Alibaba Empowering SMEs in Credit Financing

With the rapid advancement of the internet and information technology, China's e-commerce industry is gaining strong momentum globally. In 2020, Taobao, Tmall, JD.com, and Pinduoduo occupied 15%, 14%, 9%, and 4% of the global e-commerce platform market share, respectively. As of December 2020, China's retail market boasted 902 million active mobile users. In 2020, Alibaba's active consumers reached 780 million, accounting for 86.4% of active users in the domestic retail market.

From June 2019 to June 2020, Ant Group's microloan platform issued 1.73 trillion yuan in consumer credit and 420 billion yuan in small and micro business credit, indicating a well-developed microloan platform with a large scale of loans. The supply chain has a large number of small and micro business operators and consumers with strong credit demand. Alibaba has been ranked among the top 25 in Gartner's global supply chain rankings for two consecutive years since 2019.

Recently, Alibaba's cross-border e-commerce platform, Alibaba International, introduced a new initiative known as the "Digital Hybrid Trade Show." This initiative aims to organize over 100 overseas exhibitions using a digital hybrid model. These exhibitions will initially target key international trade markets such as the United States, Germany, the United Kingdom, Japan, Singapore, Australia, Turkey, India, Brazil, and Dubai. By blending offline physical exhibitions with online digital showcases, the initiative enables foreign trade enterprises to efficiently connect with overseas professional buyers at a reduced cost, effectively expanding their international market presence. The spokesperson of Alibaba International said that the "Digital Hybrid Trade Show" helps small and medium-sized foreign trade merchants bring their new products and samples to overseas exhibitions, allowing overseas buyers to see physical products made in China. Buyers can also connect directly with enterprise representatives for inquiries and communication through video links at the digital exhibition booths.

Shen Fangjun stated, "'The Digital Hybrid Trade Show' connects overseas offline buyers with the digital exhibitions on Alibaba International, allowing buyers who could originally only effectively communicate with dozens of merchants during the exhibition period to have the opportunity to interact with thousands of Chinese foreign trade merchants participating online, thereby seeing more high-quality supplies."

Before this large-scale rollout, the "Digital Hybrid Trade Show" had already been tested earlier this year. From September to November, Alibaba International cooperated with Europe's top electronics exhibition IFA, the world's largest auto parts exhibition AMF, and the half-century-old outdoor and sports goods expo ISPO, taking thousands of small and medium-sized foreign trade enterprises to overseas top exhibitions through a combination of online and offline participation.

Based on recent development trends, the spokesperson mentioned that the next stage of cross-border e-commerce dividends might come from the high efficiency and certainty brought by full-process digitalization. If the explosive growth of cross-border e-commerce in the past 20 years came from the digitalization of traditional foreign trade transactions, then the next 20 years of growth for small and medium-sized foreign trade merchants may come from the efficiency and certainty brought by the full-process digitalization of foreign trade from transactions to delivery.

## 4. Conclusions and Recommendations

First, improve the credit system construction and expand the channels for obtaining information data. 1) Improve the construction of the credit platform. Utilize big data, artificial intelligence, and other technologies to build a digital credit system covering the financial sector, enterprises, and government public departments. Expand the information data collection fields, enrich the database, and achieve full coverage of information data. Update relevant information on SMEs in a timely manner to ensure the timeliness, completeness, and accuracy of data. 2) Manage the market access of credit institutions. Strengthen government supervision, legal supervision, and use credit data protection mechanisms to monitor risks in real-time. 3) Establish a supervision and complaint mechanism for small and micro customers. By constructing a complaint mechanism, ensure the transparency of small and micro customers' appeals, solve the problem of information asymmetry, and help financial technology companies screen high-quality customers. This can reduce the non-performing loan rate of financial institutions while serving the financing needs of SMEs.

Second, fully introduce new technologies and continuously reduce risks. 1) Vigorously apply big data technology to deeply mine data and break through the "data island" situation. The integration of finance and technology makes the entire industry chain operate quickly, providing relevant credit records for the credit history, supply and demand status, and product production status of SMEs. This simplifies business processes, forms an automated data chain, and breaks through the dilemma of data islands. 2) Optimize intelligent risk control models, fully utilize financial technology to provide comprehensive risk management services for SMEs. While improving the service efficiency for SMEs, Alibaba utilizes big data technology to analyze diverse datasets. This approach improves risk management efficiency, reduces associated costs, and enhance the quality and efficiency of financing development for SMEs.

Third, strengthen the supervision of financial technology to ensure its safe and stable development. The government, as the regulator and rule maker, should strengthen the supervision of financial technology innovation services for SMEs from the following two aspects: 1) Proactive Supervision: Regulatory agencies should enhance the foresight and timeliness of supervision activities, fully utilize financial technology, establish corresponding models, predict various possible situations in time, and formulate corresponding measures. Use financial technology as a key means to empower the financing of SMEs, changing the passive supervision situation. 2) Establish an Arbitration Appeal Mechanism: Under this mechanism, industry self-discipline associations score the credit status of various enterprises, and refer to the evaluations of other professional credit rating agencies. The authenticity of the credit evaluation should be overseen by the government, which will establish corresponding arbitration institutions to review key enterprises and eliminate evaluation biases caused by unreasonable rating agency algorithms.

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