Financial Risk Prevention and Control for Small and Medium-Sized Foreign Trade Enterprises in China

Lu Lu*
Yunnan College of Business Management, Kunming, Yunnan, China
**Corresponding Author*

Abstract: In the face of constrained financing conditions, frequent exchange rate fluctuations, and increasing global trade uncertainties, China's numerous and widely dispersed small and medium-sized foreign trade enterprises are a critical factor in the stabilization of foreign trade and employment. Nevertheless, they are typically confronted with substantial financial risks, including financing challenges, delayed tax rebates, exchange rate volatility, cash flow constraints, and sluggish payment collection. This paper defines pertinent concepts, identifies the primary manifestations of financial risks, conducts an in-depth analysis of their root causes from both external environmental and internal management perspectives, and proposes actionable risk prevention strategies integrated with domestic policies and practical business practices. Its objective is to assist small and medium-sized foreign trade enterprises in mitigating financial risks and achieving sustainable operations, based on the actual operational realities of these enterprises.

Keywords: Financial Risks; Risk Prevention and Control; Accounts Receivable, and Exchange Rate Risk; Small and Medium-Sized Foreign Trade Enterprises

1. Introduction

1.1 Background and Significance of the Research

Geopolitical conflicts have persisted, trade protectionism has increased, and the restructuring of global supply chains has accelerated in recent years, resulting in a lethargic global economic recovery. Despite the fact that China's foreign trade has remained resilient in general, small and medium-sized foreign trade enterprises have faced substantial operational pressures due to lackluster external demand, intensifying international competition, and significant two-way exchange rate fluctuations.

The foundation of China's foreign commerce is comprised of small and medium-sized foreign trade enterprises. Small and medium-sized enterprises comprise more than 90% of China's foreign trade entities, accounting for approximately 60% of export value and 80% of employment, as indicated by data from the Ministry of Commerce [1]. Nevertheless, these enterprises are typically modest in size, possess limited assets, exhibit weak risk resilience, and employ non-standard financial management practices. Their financial risks are highly susceptible to concentrated outbreaks in the presence of international market fluctuations, which can lead to, at the very least, cash flow constraints and profit erosion, and, at the very worst, losses, insolvency, and debt crises.

In reality, the bankruptcy of numerous small and medium-sized foreign trade enterprises is not the result of a dearth of orders, but rather of challenges in collecting payments, exchange rate fluctuations, or broken capital chains. Consequently, it is of great practical importance to conduct comprehensive research on the current state, causes, and preventive measures of financial risks that these enterprises encounter in order to assist them in surviving and thriving, as well as to stabilize China's foreign trade foundation.

1.2 Research Questions and Objectives

The primary focus of this article is to address three inquiries:

(1) What are the most significant financial hazards that small and medium-sized foreign trade enterprises in China are currently facing?

(2) What are the internal and external causes of these financial risks?

(3) What are the practicable financial risk prevention and control measures that can be implemented in accordance with the national

conditions of China and the actual circumstances of enterprises?

Research Objective: This study proposes practical, implementable, and cost-controlled financial risk management solutions, eschewing lofty theoretical frameworks in order to address the reality of small and medium-sized foreign trade enterprises, which are characterized by their "small scale, fragmented operations, and limited capacity." The results are intended to be used as a reference by industry service providers, financial professionals, and corporate administrators.

1.3 Thesis Structure

This paper is divided into seven sections: Section 1 serves as the introduction; Section 2 provides a literature review; Section 3 outlines the theoretical foundations; Section 4 analyzes the current status of financial risks in small and medium-sized foreign trade enterprises; Section 5 examines the root causes of these risks. Section 6 proposes preventive and control measures, and Section 7 presents conclusions and future directions.

2. Literature Review

2.1 Research on Financial Risks of Foreign Trade Enterprises

The primary concentration of domestic scholars' research on the financial risks of foreign trade enterprises is on three components: funding risk, credit risk, and exchange rate risk.

Li observed that the renminbi exchange rate has experienced two-way fluctuations, which have become the norm. Small and medium-sized foreign trade enterprises frequently experience passive exchange rate losses due to a lack of professional foreign exchange expertise and hedging instruments [2]. Wang discovered through his research that the absence of exchange rate hedging results in exchange rate losses eclipsing 3% per transaction for over 60% of small and medium-sized export enterprises [3]. Jin additionally demonstrated that a 1% increase in exchange rate volatility results in a 0.8% decrease in the average profit margin of small and medium-sized foreign trade enterprises [4].

In their argument regarding accounts receivable risks, Xiang and Wan contend that the bad debt ratio has increased and the accounts receivable of small and medium-sized foreign trade enterprises have continued to expand due to widespread overseas credit sales, extended payment terms, and uneven customer creditworthiness [5]. Chen observes that certain organizations implement reckless credit sales in order to secure orders, while consumer credit investigations are superficial, leading to substantial non-performing and bad debts [6]. Zhang discovered through his research that the average bad debt ratio for accounts receivable among China's small and medium-sized foreign trade enterprises is 5.2%, which is substantially higher than the 1.3% observed in large foreign trade enterprises [7].

Zhang observed that small and medium-sized foreign trade enterprises are continuously hindered by "difficult and expensive financing" due to high lending thresholds, limited loan amounts, and elevated costs from banks, in addition to insufficient collateral and low credit ratings [8]. Wang also noted that the lengthy export tax rebate procedure consumes working capital, which further exacerbates cash flow pressures. As a result, some enterprises are experiencing cash flow disruptions as a result of delayed tax rebates [9]. Huang contended that the frequent financial hazards experienced by these enterprises are primarily due to the absence of a scientific budgeting mechanism and chaotic cash flow management [10].

2.2 Research on Risk Management in Small and Medium-Sized Enterprises

In general, domestic research on risk management in small and medium-sized enterprises identifies weak internal management as the primary cause of frequent risks.

Liu observes that the majority of small and medium-sized enterprises (SMEs) are family-owned, which renders them susceptible to issues such as fund misappropriation, accounting irregularities, and investment errors. These enterprises are also characterized by arbitrary decision-making, a lack of internal controls, and inadequate financial systems [11]. Zhao emphasizes that small and medium-sized enterprises (SMEs) typically lack professional financial and risk management expertise. Managers prioritize business operations over financial matters, demonstrate inadequate risk awareness, and are incapable of anticipating and mitigating potential risks [12]. Furthermore, Li discovered that financial risks are positively correlated with internal control deficiencies in SMEs. Specifically, the likelihood of financial risks occurring increases as the robustness of internal controls decreases [13].

Additionally, some scholars have suggested countermeasures and proposed recommendations. For example, Chen recommended that small and medium-sized enterprises (SMEs) implement straightforward and practical internal control systems and enhance their budget and cash flow management [14]. Lin, on the other hand, advocated for the reduction of financing barriers for SMEs, the development of innovative financial products by banks, and the increase of government policy support [15].

2.3 Research Gaps and the Contribution of this Paper

Current research primarily concentrates on a single perspective (such as internal management or external policies) or single hazards (such as exchange rates or accounts receivable). There is a significant dearth of research that systematically analyzes risks in the actual operational contexts of China's small and medium-sized foreign trade enterprises and suggests actionable countermeasures. Many proposed solutions are excessively theoretical and do not adequately address the practical challenges that SMEs encounter, such as a lack of funding, personnel, and established systems.

This paper's significance is its comprehensive examination of the realities of small and medium-sized foreign trade enterprises, which avoids abstract theoretical discussions and instead concentrates on the analysis of five common challenges: financing difficulties, slow payment collection, exchange rate fluctuations, cash flow constraints, and delayed tax rebates. The article suggests preventive measures that are cost-effective, easily implementable, and rapidly actionable by analyzing both external environmental factors and internal management practices. This ensures that the measures are genuinely "understandable and actionable for businesses."

3. Theoretical Basis

3.1 Definition of Small and Medium-Sized Foreign Trade Enterprises

The small and medium-sized foreign trade enterprises discussed in this article are enterprises that engage in the import and export of goods or services and have an annual revenue below 400 million yuan, as defined by the "Regulations on the Classification Standards for Small and Medium-sized Enterprises" issued by the Ministry of Industry and Information Technology [10]. This classification is based on the characteristics of the foreign trade industry. The majority of these enterprises are private entities that are distinguished by their small size, straightforward organizational structures, and adaptable operations; however, they demonstrate inadequate risk resilience. This definition is consistent with the criteria enumerated in the Ministry of Commerce's "China Small and Medium-sized Foreign Trade Enterprise Development Report 2024" [1], thereby guaranteeing the scientific rigor and relevance of the research subjects.

3.2 The Connotation and Types of Financial Risks

Financial risk, in essence, is the probability that an enterprise's actual returns will deviate from expectations, experience cash flow constraints, or even incur losses and go bankrupt as a result of a variety of uncertainties in financial activities, including fundraising, investment, capital operations, and profit distribution. According to Huang's research classification and the operational characteristics of small and medium-sized foreign trade enterprises, the most prevalent financial hazards are as follows:

Financing risk: delays in fund availability, high costs, and limited financing channels;

Account receivable risk: a high proportion of overseas credit sales, extended payment terms, and a high bad debt rate;

Exchange rate risk: fluctuations in exchange rates result in foreign exchange losses and declining profits.

(4) Cash flow risk: unstable cash flow, sluggish turnover, and high capital tie-up.

(5) Tax risks include non-compliant refund documentation, delayed export tax refunds, and tax penalties.

3.3 Characteristics of Financial Risks in International Trade

Foreign trade enterprises' financial risks are distinguished by four distinguishing characteristics: international scope, complexity, volatility, and contagion effects, as opposed to those of domestic trade enterprises.

(1) International nature: Involves laws, policies, currencies, and cultures from various countries, which leads to the emergence of more intricate

risk sources.

(2) Complexity: The convergence of multiple factors, including exchange rates, tariffs, trade barriers, and international politics.

(3) Volatility: International market prices, exchange rates, and demand fluctuate rapidly with high uncertainty.

(4) Conductivity: Risks such as overseas customer defaults and exchange rate fluctuations can rapidly affect the cash flow of domestic enterprises.

(5) This attribute is consistent with Miller's (2020) research on the transmission of financial risks to small and medium-sized enterprises as a result of global trade uncertainties [16].

4. Current Status of Financial Risks in Chinas Small and Medium-Sized Foreign Trade Enterprises

4.1 Financing Challenges and Elevated Funding Expenses

The most prevalent and prominent challenges that small and medium-sized foreign trade enterprises encounter are elevated financing costs and access to financing. Over 70% of these enterprises identify financing challenges as the primary impediment to their growth, as indicated by Zhang's survey [8].

Over 90% of small and medium-sized foreign trade enterprises depend on their own funds and private lending for financing, while bank loans account for less than 10% [8]. In general, banks favor larger enterprises over smaller ones. This is due to the fact that these firms frequently have low credit ratings, lack sufficient collateral, and have non-standard financial statements, which makes it challenging for them to secure low-cost loans. Interest rates typically increase by 30%–50%, and the overall funding cost often exceeds 8% when combined with guarantee fees and appraisal fees, even when successful in securing loans. This is significantly higher than that of major enterprises. According to Lin's research, the average financing cost for small and medium-sized foreign trade enterprises is 4–5 percentage points higher than that of large foreign trade enterprises [15].

In order to secure orders and cover initial costs, numerous enterprises are compelled to utilize high-interest private loans, with annualized interest rates ranging from 15% to 24%. In the event that payments are delayed or orders result in losses, they are susceptible to the debt trap of "borrowing new funds to repay old debts," which ultimately results in a rupture in their capital chain. This discovery is consistent with Chen's investigation of the financial hazards and financing constraints encountered by small and medium-sized foreign trade enterprises in China [17].

4.2 Large Accounts Receivable Balance and High Bad Debt Risk

There is intense competition in the international market, and small and medium-sized foreign trade enterprises are entering.The credit sales (O/A) model is a common practice among small and medium-sized foreign trade enterprises in order to secure orders in the highly competitive international market. Payment terms typically range from 30 to 90 days, and in some cases, up to 180 days. According to Zhang's research, the current assets of China's small and medium-sized foreign trade enterprises are more than 50% accounted for by accounts receivable, which is substantially higher than that of large enterprises [7].

According to industry research, the average payment collection cycle for small and medium-sized foreign trade enterprises in China exceeds 120 days, which leads to significant capital strain. More concerningly, economic downturns have resulted in an increase in the number of overseas clients who default on payments, engage in malicious price cuts, or even go bankrupt and depart, thereby increasing corporate bad debt ratios. Chen observes that the average problematic debt rate for accounts receivable among these enterprises exceeds 5%, with certain sectors surpassing 10% [6].

Perfunctory credit investigations for overseas clients are the result of the absence of dedicated credit management divisions in numerous small and medium-sized enterprises. Frequently, they authorize credit sales exclusively on the basis of established relationships and prior orders, only to discover that the counterparties were already insolvent after the client defaulted, resulting in complete losses. Zhang's research on credit risk and bad debt control in international trade enterprises is consistent with this discovery [18].

4.3 Frequent Exchange Rate Fluctuations Result in Significant Foreign Exchange Losses

In recent years, the renminbi's two-way volatility against currencies such as the US dollar and the euro has increased, considerably affecting the profits of small and medium-sized foreign trade enterprises due to broad exchange rate fluctuations. Jin observed that these enterprises experience an average profit margin decline of 0.8% as a result of a 1% increase in renminbi exchange rate volatility [4].

US dollars are the primary currency used to resolve the exports of small and medium-sized enterprises that are export-oriented. The entire process, which encompasses quotation, order acceptance, procurement, production, and payment collection, typically requires 3 to 6 months. If the renminbi experiences a 3% appreciation during this period, a $1 million order would incur a direct loss of over 200,000 RMB in profit. Consequently, orders may appear profitable on the surface, but payment collection frequently results in losses due to exchange rate fluctuations, as many companies solely base their quotations on product costs, completely disregarding exchange rate fluctuation risks. In her research, Wang discovered that the failure to employ hedging strategies results in exchange rate losses exceeding 3% per order for over 60% of small and medium-sized export enterprises [3].

In a more practical sense, small and medium-sized foreign trade enterprises are deficient in professional foreign exchange expertise and risk hedging instruments. Forward foreign exchange settlement and options are bank products that are inaccessible, unattractive, or unaffordable for the majority of companies due to their high entry barriers, complex procedures, and substantial fees. Businesses frequently are compelled to rely on chance when confronted with fluctuations in exchange rates, resulting in passively enduring foreign exchange losses. This discovery is consistent with Anderson's [19] research on the financial vulnerability of small and medium-sized foreign trade enterprises in relation to exchange rate volatility.

4.4 Unstable Cash Flow and Prominent Liquidity Risk

In general, small and medium-sized foreign trade enterprises encounter fragile capital chains, poor risk resilience, and constrained, disorganized, and unstable cash flows. In these enterprises, the absence of a scientific budgeting mechanism and the chaotic cash flow management are significant factors that contribute to the frequent occurrence of financial risks, as Huang noted [10].

On the one hand, enterprises in the upstream sector are required to make advance payments in order to purchase raw materials. On the other hand, downstream customers are sold on credit, incurring additional costs for production, logistics, and customs clearance. This creates a series of capital-intensive stages that involve substantial amounts and extended cycles. Conversely, the export tax rebate process is protracted, with a typical processing time of 3–6 months. This results in substantial funds being restricted during this phase, which exacerbates cash flow constraints. Wang [9] observes that the capital occupation rate of certain small and medium-sized foreign trade enterprises has increased by more than 20% as a result of delayed export tax rebates.

Many enterprises neglect to implement cash budgets or capital planning. They spend recklessly when funds are abundant and borrow extensively when cash is scarce, relying solely on payment collections and orders for their cash flow—essentially "playing it safe." "The enterprise's survival is directly threatened if any of these issues—such as order delays, customer payment defaults, exchange rate losses, or delayed tax refunds—occur. The cash flow is immediately strained or even interrupted." This discovery is consistent with Wang's research on sustainable operations and cash flow management for small and medium-sized enterprises that are export-oriented [20].

4.5 Delayed Export Tax Rebates Increase Tax Risks

For small and medium-sized foreign trade enterprises, export tax rebates are an essential source of capital supplementation and profit. These businesses have long been concerned about the challenges of obtaining rebates, which include elevated risks, delays, and difficulties. According to Wang, the cash flow of small and medium-sized foreign trade enterprises is considerably affected by export tax rebate policies, and delayed rebates directly exacerbate their financial strain [9].

In reality, numerous small and medium-sized foreign trade enterprises are plagued by non-compliant financial practices, incomplete documentation, and erroneous declaration materials. This results in rejected or delayed tax refund approvals, with processing cycles that exceed six months and significantly impair working capital. More importantly, certain organizations generate value-added tax invoices and counterfeit export documents to optimize their tax refunds. When tax authorities identify them, they are subject to criminal liability in addition to the recovery of refund amounts and penalties, which frequently leads to the direct collapse of their business.

5. Causes of Financial Risks for Small and Medium-Sized Foreign Trade Enterprises in China

5.1 External Environmental Factors

(1) Weak international market demand and intensified competition

(2) The global economic recovery is still sluggish, as it is characterized by high inflation and weak consumption in major export markets like the United States and Europe, as well as insufficient external demand, declining orders, and intense price battles. Miller's (2020) research suggests that the transmission of financial risks among small and medium-sized enterprises (SMEs) is further exacerbated by global trade uncertainties. In order to secure orders, these small and medium-sized enterprises (SMEs) are compelled to reduce prices, extend payment terms, and modify credit conditions. This leads to heightened financial pressure, increased accounts receivable risks, and thinner profit margins [16].

(3) Exchange Rate Policy and Fluctuations in the International Financial Environment

(4) Two-way exchange rate fluctuations have become the standard following the market-oriented reform of the RMB exchange rate. The volatility has increased in both magnitude and frequency as a result of factors such as the Federal Reserve's monetary policy, international capital flows, and geopolitical developments. Anderson (2022) observes that the financial vulnerability of small and medium-sized foreign trade enterprises is substantially elevated by fluctuations in exchange rates. The exchange rate risks are further exacerbated by the turmoil in international financial markets, as well as the stronger US dollar and a weaker euro, which impose substantial foreign exchange loss pressures on these enterprises [19].

(5) International Trade Frictions and the Rise of Protectionism

(6) In recent years, there has been a rise in trade protectionism, as evidenced by the emergence of tariff barriers, technical barriers, ecological barriers, and trade sanctions. Frequently, certain countries have instituted anti-dumping and countervailing investigations against China's products, raised tariffs, and restricted imports. This has resulted in increased financial risks, market contraction, loss of orders, and higher export costs for enterprises. This is consistent with Miller's (2020) research on the financial hazards of small and medium-sized enterprises in the context of global trade uncertainty [16].

(7) Inadequate domestic financing policies and financial services

(8) Despite the government's numerous efforts to implement policies that facilitate the financing of small and medium-sized enterprises (SMEs), obstacles persist, including deficient bank execution and inadequate policy implementation. Bank credit resources are primarily allocated to large and state-owned enterprises, while SMEs in foreign trade encounter persistent unresolved issues of difficult and expensive financing due to inadequate credit assessment systems, a lack of effective collateral, and high risk premiums [8]. Furthermore, financial services, such as foreign exchange, settlement, and tax refund solutions, are scarce and frequently subject to high thresholds and fees, resulting in a failure to meet the actual requirements of enterprises. Lin (2024) [15] suggests that banks should develop innovative financial products to reduce the financing barriers for SMEs.

5.2 Internal Management Factors

(1) The internal control system is inadequate, and management is lax.

(2) The vast majority of small and medium-sized foreign trade enterprises are managed under family or workshop-style models, which are characterized by the absence of well-established financial systems and internal control mechanisms [11]. The finance department frequently operates only in name, with ambiguous job responsibilities. It is not uncommon for employees to hold multiple positions, have overlapping authority and responsibilities, and share both cashier and accounting duties. This configuration enables the occurrence of financial fraud, accounting irregularities, and fund misappropriation. According to Davis's research, the financial hazards that small and medium-sized enterprises encounter are substantially elevated by inadequate internal controls [21].

The enterprise lacks mechanisms for identifying, assessing, and responding to risks related to financing, credit, exchange rates, and cash flow, as it has not established a risk management system. The company is unable to respond actively when hazards manifest, which frequently leads to irreversible losses. Li (2024) conducts additional research that indicates a positive correlation between financial risks and internal control deficiencies in small and medium-sized enterprises. Specifically, the higher the probability of financial risks occurring, the less robust the internal controls are [13].

Managers prioritize business operations over financial matters, resulting in a lack of risk awareness.

The majority of small and medium-sized foreign trade enterprise proprietors have a background in technology, sales, or business operations. They prioritize orders, performance, and scale over financial management, risk control, and operational supervision [12]. Numerous proprietors disregard financial risk prevention and management, as they are under the impression that "profits can be generated as long as there are orders." Their decision-making is highly arbitrary as a result of their insufficient vigilance against potential risks, including exchange rate fluctuations, customer credit risks, and capital tied-ups. At the end of the day, this frequently leads to financial crises through blind credit sales, irresponsible expansion, and reckless investments.

Severe shortage of professional financial and risk management talent

Generally, there is a dearth of specialized financial and risk management personnel of high quality in small and medium-sized foreign trade enterprises [12]. Financial staff are frequently relatives, friends, or part-time employees who possess limited expertise. They are capable of performing fundamental bookkeeping and tax filing, but they lack the ability to perform financial analysis, budget management, risk early warning, or foreign exchange hedging. The absence of dedicated positions for credit management, foreign exchange management, and fund management in these enterprises results in the superficiality of risk prevention efforts. These responsibilities are frequently assumed by sales staff or the owners themselves, who lack the necessary professional competence and time/energy. This discovery is consistent with the findings of Alvarez & Luis [22] concerning the financial risk management practices of small and medium-sized export enterprises. .

Inadequate financial management information accompanied by delayed data.

Numerous small and medium-sized foreign trade enterprises continue to depend on manual bookkeeping or basic financial software, which leads to fragmented, non-interconnected, and delayed data regarding operations, finances, consumers, and funds. Managers are compelled to rely solely on intuition and experience when making decisions, which increases the probability of misjudgments and errors, as they are unable to acquire real-time insights into critical financial metrics such as accounts receivable, cash flow, liabilities, and profits. Furthermore, the financial vulnerabilities are further exacerbated by the high error rates, inefficient financial operations, and significant compliance risks that result from low levels of digitalization. Li's (2022) research suggests that financial risk early-warning systems for small and medium-sized foreign trade enterprises are complicated by deficient digitalization [23].

6. Financial Risk Prevention and Control Strategies for Small and Medium-Sized Foreign Trade Enterprises in China

6.1 Optimize Financing Channels and Reduce Funding Costs

(1) Prudent utilization of policy-based financing instruments

(2) Enterprises should proactively comprehend and effectively implement policy-based financing instruments offered by national and local governments to assist small and medium-sized foreign trade enterprises, including export credit, special foreign trade loans, interest-subsidized loans, and credit insurance financing [15]. These products are distinguished by their low interest rates, substantial loan amounts, extended terms, and relatively low entry thresholds, which effectively serve to alleviate financial stress and reduce financing expenses. The Ministry of Commerce also explicitly stated in the "China Small and Medium-sized Foreign Trade Enterprise Development Report 2024" the necessity of improving policy-based financing support to assist small and medium-sized foreign trade enterprises in alleviating financing pressures [1].

(3) Expand a variety of financing channels

(4) Enterprises have the option of actively investigating financing channels, including supply chain finance, bill discounting, export tax rebate-backed financing, and cross-border RMB

settlement financing, in addition to bank loans [15]. Financing can be obtained through accounts receivable pledges, order pledges, or warehouse receipt pledges by capitalizing on the creditworthiness of primary enterprises. This approach does not necessitate collateral, thereby reducing entry barriers and expediting loan disbursement. This is consistent with the recommendations outlined in Chen's study on the alleviation of financing constraints for small and medium-sized foreign trade enterprises [17].

(5) Foster more enduring partnerships with financial institutions

(6) In order to establish long-term, stable cooperative relationships, enterprises should proactively communicate with banks, maintain a solid credit record, and standardize their financial statements [8]. In order to prevent last-minute scrambling for funds during urgent needs, it is imperative to engage in regular bank engagements in order to register for credit lines in advance. This method improves the success rates of financing and bargaining power, thereby facilitating the pursuit of more favorable terms and lower interest rates.

6.2 Enhance Credit Management and Implement

(1) Establish a customer credit assessment system

(2) Enterprises should prioritize the establishment of dedicated credit management positions (which may be part-time), the maintenance of customer credit profiles, and the execution of comprehensive credit assessments for both new and existing customers [7]. The evaluation should concentrate on the customer's operational status, financial strength, credit history, payment patterns, and industry reputation. Credit ratings should be assigned based on these factors, and corresponding credit limits and payment terms should be established. Credit sales must be rigorously prohibited for high-risk customers, or advance payments or letter of credit settlements should be mandated. This method is consistent with Zhang's recommendations for credit risk management in international trade enterprises [18].

(3) Standardize the credit sales process and strictly control payment terms

(4) It is imperative that enterprises implement a transparent credit sales management system. Credit assessment and approval are mandatory for all credit sales; sales personnel are rigorously prohibited from conducting credit sales without authorization [6]. In general, the payment term must be rigorously controlled, with a maximum of 60 days. In exceptional circumstances, senior management approval and an increased advance payment ratio may be necessary. Creditworthiness of existing customers should also be reviewed periodically; if their business performance deteriorates, the credit limit should be immediately reduced, the payment term abbreviated, or credit sales discontinued.

(5) Strengthen accounts receivable collection and tracking

(6) Establish an accounts receivable ledger to monitor the maturity status of each payment in real time, send reminders to customers prior to maturity, and conduct timely collection efforts after maturity [7]. To reduce bad debt losses, implement differentiated collection strategies for overdue payments based on the duration: friendly reminders within 30 days, formal letters and suspension of new orders for payments due between 30 and 90 days, and engagement of professional collection agencies or legal action for payments exceeding 90 days. This is consistent with Brown's [24] research on the stability of cash flows and the risk of accounts receivables in export enterprises.

6.3 Utilizing Financial Instruments to Hedge against Exchange Rate Volatility Risks

(1) Adopt a risk-neutral approach and actively manage exchange rate risks

(2) Enterprises should shift their focus from pursing gains from exchange rate fluctuations to locking in costs and profits, abandoning the "exchange rate gambling" mentality and adopting a risk-neutral, value-preserving approach to exchange rate management [4]. In order to prevent foreign exchange losses from eroding profits, a 3%–5% exchange rate risk reserve must be established for all export orders during quotation or order acceptance. Exchange rate volatility risks must be taken into account.

(3) Prioritize settlement in Renminbi(RMB)

(4) In order to mitigate exchange rate risks at the source, it is recommended that renminbi-denominated pricing and settlement be prioritized when engaging in transactions with countries and regions that broadly recognize the renminbi, including the Middle East, Russia, and ASEAN [3]. Enterprises should actively encourage clients to adopt renminbi settlement methods, which offer streamlined procedures,

low costs, and no exchange rate risks, as the government strongly supports cross-border renminbi settlement.

(5) Rational use of low-cost foreign exchange hedging instruments

(6) Enterprises may choose suitable low-cost hedging instruments for orders that necessitate settlement in euros or US dollars based on the order quantity and duration [4].

(7) Short-term orders (within 3 months): Forward foreign exchange settlement is an option that allows you to secure the exchange rate with low fees and straightforward operations.

(8) Foreign exchange options are available for medium-to-long-term orders (3–6 months). By paying a nominal premium, you can secure a minimum settlement price and profits during favorable exchange rates.

(9) Orders with a high value: To optimize flexibility and minimize expenses, forward contracts and options may be implemented. This is consistent with Garcia's research on the profitability of export enterprises in relation to exchange rate hedging [25].

6.4 Improve Cash Flow Management and Strengthen the Internal Control System

(1) Prepare a cash budget and develop a fund plan

(2) In order to anticipate cash inflows (from receivables collection, tax refunds, and financing) and disbursements (for procurement, salaries, expenses, and repayments) for the subsequent one to three months, enterprises should develop a monthly cash budget [14]. This allows for the early identification of prospective cash flow shortfalls, which in turn enables proactive financing arrangements or expenditure adjustments to prevent cash flow disruptions. In order to guarantee a secure and consistent cash flow, enterprises should refrain from irresponsible expansion or investment, adhering to the principle of "living within means and determining expenditures based on revenues." These practices are consistent with Wang's research on cash flow management for small and medium-sized enterprises that are export-oriented [20].

(3) Optimize fund utilization and accelerate capital turnover

(4) Maintain a strict control over the advance payment ratio, which should not exceed 30%, and endeavor to implement cash-on-delivery or monthly settlement. Ensure that inventory overstock is managed rigorously by purchasing and producing in accordance with actual demand to reduce capital tie-up. Accelerate the processing of export tax rebates, standardize financial and document management, and submit tax rebate applications promptly [9]. Consider utilizing tax rebate pledge financing to recover funds in advance when essential.

(5) Implement an internal control system that is both straightforward and practicable.

(6) Develop an internal control system that is both cost-effective and straightforward to implement, and that is customized to the enterprise's size and unique circumstances [14]:

(7) Job separation: The cashier, accountant, procurement officer, approver, and salesperson or officer are each designated distinct roles and do not hold concurrent positions.

(8) Funding Approval: Collective decision-making and dual-person approval are required for large-scale fund expenditures.

(9) Consistent reconciliation: Monthly verification of bank accounts, accounts receivable, and accounts payable to guarantee that the actual figures are consistent with the records.

(10) Internal Self-Assessment: Conduct an internal control self-assessment on a quarterly basis to identify vulnerabilities and implement timely corrective actions.

(11) This is consistent with the research recommendations of Davis [21] concerning the prevention of financial risk and internal control in small and medium-sized enterprises.

6.5 Cultivate Professional Talents and Enhance Financial Management Capabilities

(1) Strengthen training for existing financial staff

(2) Consistently arrange for financial staff to participate in professional training programs, including foreign trade accounting, export tax rebate, foreign exchange management, financial analysis, and risk prevention and control [12], to improve their practical skills and professional qualifications. Facilitate the transition from basic bookkeeping to management accounting and risk management accounting by encouraging financial personnel to acquire knowledge in foreign languages, international trade, law, and related fields.

(3) Recruitment or part-time engagement of professional talent

(4) Enterprises may, in accordance with their

specific requirements, either engage external specialized institutions or senior financial personnel as part-time consultants [15] or recruit professionals with experience in foreign trade finance, foreign exchange management, and credit management to aid in the establishment of financial systems, the standardization of financial management, and the mitigation of financial risks. This is consistent with the suggestions provided by Alvarez & Luis [22] for the development of financial risk management expertise among small and medium-sized export enterprises.

(5) Enhance managers financial and risk awareness

(6) Business owners and core managers should prioritize financial operations, respect financial principles, and desist from interfering with standard financial approval and internal control processes. Additionally, they should proactively acquire financial knowledge and risk management concepts [12. In order to prevent financial crises caused by impulsive decisions, they should adopt the principal of "prudent operations, safety first," which prioritizes financial risk prevention while pursuing scale and orders.

7. Conclusion and Outlook

7.1 Main Conclusions

This paper systematically examines five core financial risks, including financing difficulties, high accounts receivable risks, substantial losses from exchange rate fluctuations, unstable cash flow, and prominent tax refund risks, in accordance with the realities of small and medium-sized foreign trade enterprises, which are prevalent in China. It conducts a comprehensive examination of these risks by analyzing external factors, including the international market, exchange rate conditions, trade frictions, and domestic financial services, as well as internal factors, including a shortage of professional talent, low levels of digitalization, inadequate internal controls, and weak risk awareness. Lastly, the paper suggests mitigation strategies that are practicable, cost-effective, and actionable in five dimensions: financing optimization, credit management, exchange rate hedging, cash flow management, and talent development.

The research determined that the financial risks encountered by small and medium-sized foreign trade enterprises in China are purportedly the result of external environmental disruptions; however, their fundamental cause is inadequate internal management. Enterprises must not only proactively respond to changes in the external environment, but also concentrate on strengthening internal capabilities, enhancing internal management, and increasing risk prevention and control capabilities in order to effectively mitigate financial risks. Enterprises can only endure, operate stably, and prosper in the intricate and volatile international market by incorporating risk prevention and control into all aspects of their daily operations. This discovery is consistent with Li's conclusions regarding the early detection of financial risk for small and medium-sized foreign trade enterprises in China.

7.2 Research Limitations and Future Prospects

Some viewpoints and recommendations are primarily based on industry research and corporate operational experience, necessitating further validation for their general applicability. Additionally, the study lacks sufficient depth regarding financial risks under emerging contexts such as the digital yuan, new cross-border e-commerce models, and the updated RCEP rules. The absence of large-scale questionnaire surveys and empirical data support is one of the paper's limitations.

To facilitate real-time risk identification, early warning, and mitigation, future research can further integrate technologies such as artificial intelligence and big data to develop financial risk early-warning models for small and medium-sized foreign trade enterprises. Furthermore, comprehensive research should investigate the new trends, characteristics, and mitigation strategies of financial risks that these enterprises encounter in the context of national strategies such as the RCEP and the Belt and Road Initiative, thereby offering more precise advice to businesses.

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