

Research on the Impact Mechanism of Interregional Trust on Supply Chain Financing

Jianfeng Zhu ^{1,*}, Dujuan Fang ², Deyu Li ³

¹ School of Finance, Anhui University of Finance and Economics, Bengbu, Anhui, 233030, China

² School of International Economics and Trade, Anhui University of Finance and Economics, Bengbu, Anhui, 233030, China

³ School of Economics, Anhui University of Finance and Economics, Bengbu, Anhui, 233030, China

*Corresponding Author: 2994355430@qq.com

ABSTRACT

Supply chain financing has received widespread attention from academia, but there is almost no connection between regional trust and supply chain. There is information asymmetry in small and medium-sized enterprises, which leads to financing constraints. Trust between regions will exacerbate this constraint, restricting the financing of buyers and sellers, and thus affecting the entire supply chain financing. The transaction between different regions is fitted with the trust between regions and the supply chain financing situation between different regions in previous years. The relationship between the two is established, and the impact mechanism of trust between regions on the development of supply chain financing is studied. After empirical analysis of the impact of trust factors on the upstream and downstream of special supply chains, the impact of trust between regions on supply chain financing is further analyzed. This article explores the impact mechanism of inter-regional trust on supply chain financing from the perspective of inter-regional trust.

KEYWORDS

Trust between regions; Supply chain financing; Financing constraints

1. INTRODUCTION

Due to the dual impact of the international situation and the epidemic, the survival and development of domestic small and medium-sized enterprises are facing enormous challenges. Among these challenges, the issue of financial integration is particularly prominent. Due to the increased uncertainty of the external environment, the liquidity and financing ability of small and medium-sized enterprises have been seriously affected, which in turn affects their normal operation and development. This problem is manifested in the presence of risks and constraints in transactions between upstream and downstream small and medium-sized enterprises in the supply chain. A supply chain is a complex network composed of multiple enterprises, and any link may form a fracture. Due to funding issues, transactions between upstream and downstream enterprises may be hindered, leading to instability in the supply chain. Trust between regions can be explained through the concept of information asymmetry, which leads to financing constraints that also create transaction difficulties between upstream and downstream (Zhou Xiaozan et al., 2023). Therefore, by analyzing historical data and obtaining the mechanism of the impact of inter regional trust on supply chain financing, we can to some extent understand the impact of inter regional trust on the supply chain and improve the

survival and development of small and medium-sized enterprises in the upstream and downstream of the supply chain.

2. LITERATURE REVIEW

The modernization level of China's supply chain shows specific spatial distribution characteristics, and this regional difference in supply chain modernization level mainly comes from regional differences. The regional differences in the modernization level of China's supply chain, such as geographical location, cultural and economic prosperity, will manifest, resulting in differences in the modernization level of supply chains between regions (Han et al., 2023). However, it is difficult to provide a specific overview of the overall level of supply chain financing between regions, which factors have a significant impact. This article focuses on the relationships between regions and does not study the level of supply chain financing in individual regions on a regional basis. Instead, it takes the trust and supply chain financing situation between regions as the research point to find their connections. Small and medium-sized enterprises face significant financing difficulties, which not only constrain their development and survival, but also pose risks to them. In the recent pandemic, the development of small and medium-sized enterprises has been greatly affected. There is a significant bilateral trust asymmetry between provinces in China, and provinces that gain high trust do not show equal trust towards other provinces (Lin Jianhao et al., 2018). Starting from the trust between regions, identifying the factors that affect the exchange of funds between supply chains has a very positive significance in solving the problem of financing for small and medium-sized enterprises in the supply chain and promoting the smooth progress of the supply chain. Finally, the study investigates the impact of inter regional trust on the flow of funds throughout the entire supply chain, and the impact of different levels of trust between regions on the flow of funds between buyers and sellers. Analyze the transaction and fund flow patterns between different regions, and understand the liquidity and frequency of funds under different levels of trust; Further analyze the modern mode of capital circulation and the degree to which financial intermediaries are utilized; The development status of various industries under different levels of trust. Therefore, this article will analyze the relationship between inter regional trust and the financial flow of upstream and downstream enterprises in the entire supply chain, and derive the relationship between inter regional trust and supply chain financing.

3. ANALYSIS OF THE IMPACT OF REGIONAL TRUST ON SUPPLY CHAIN FINANCING

The different levels of trust between regions will affect the cooperation between enterprises in the supply chain.

3.1. When The Level Of Trust Between Regions Is High

A trusting regional atmosphere will guide the demand side to fully disclose their own information and business information, promoting financial communication between the supply side and the demand side. When the level of trust between regions is high, it means that business partners, organizations, and individuals between these regions are more willing to trust each other, and this trust atmosphere provides a good environment for business activities. In this atmosphere of trust, the demand side is more inclined to disclose their detailed information to the supply side. This is because trust reduces concerns about information abuse or leakage, making both parties more willing to share necessary information to facilitate smooth transactions. The full exchange of this information helps both parties to better understand each other and make wiser decisions. In regions with high levels of trust, the financial flow between the supply and demand sides will also be smoother (Yang Yang et al., 2020). Because both parties have confidence in each other, they are more willing to engage in

financial transactions such as loans, investments, or trade financing. This kind of financial integration not only helps to alleviate financial pressure, but also promotes economic cooperation and common development between both sides.

Trust between regions will increase mutual recognition, reduce transaction costs between supply chain enterprises, and accelerate capital flow. Trust is the foundation for building relationships. When there is a high level of trust between regions, both parties are more likely to resonate and understand, which can promote cooperation between supply chain enterprises (Xu Shujun and Ma Shihua, 2000). This sense of identity is not only reflected at the cultural level, but also includes multiple dimensions such as economy and politics. The enhancement of identity helps to bring both parties closer, making it easier for both parties to form consensus during the cooperation process, and reducing misunderstandings and conflicts caused by cultural differences or ideological differences. Moreover, in highly trusted regional cooperation, both sides are more willing to communicate with an open and honest attitude, effectively reducing friction in cooperation. Trust can reduce the defensive mentality of both parties during negotiation, negotiation, and execution, making cooperation smoother. Even if there are differences or issues, both parties will be more inclined to resolve them through friendly negotiations rather than resorting to confrontation or litigation. Trust is an important driving force for capital flow. When the level of trust between regions is high, the flow of funds will also be more frequent and rapid.

3.2. When The Level Of Trust Between Regions Is Low

The supplier does not trust the other party's funding requirements and refuses to cooperate, which can cause the funding chain to break. Trust plays a crucial role in financial financing. Trust is the foundation of cooperation in business and financial transactions. When the trust level of the supply side in the demand side is low, the supply side may doubt the authenticity and rationality of the funding requirements proposed by the demand side, leading to a sense of vigilance. When the supply side refuses to cooperate with the demand side due to lack of trust, the continuity of the funding chain may be affected. The funding chain is a crucial link in economic activities, connecting the supply and demand sides of funds, ensuring the flow and circulation of funds. If the supply side interrupts cooperation due to lack of trust, a certain link in the funding chain may break, resulting in ineffective flow of funds.

Both sides will conduct in-depth investigations into the situation of the other company. When the trust foundation is weak, both the supply and demand sides of financial financing tend to evaluate the reliability, stability, and potential risks of the other party through more detailed and in-depth investigations. For the supply side, companies that conduct in-depth investigations of the demand side can provide funds to the demand side with greater confidence, reducing potential risks caused by lack of trust. The improvement of information transparency can significantly accelerate the financing approval process. Under the supply chain financing model, a comprehensive enterprise information system is constructed by gathering information and resources from upstream and downstream enterprises in the supply chain. Financial institutions can rely on this detailed information to quickly and accurately evaluate the credit situation and financing needs of enterprises, thereby streamlining the approval process and significantly improving the efficiency and speed of financing (Zhang Weihua, 2023). For the demand side, it is equally important to conduct in-depth investigations into the company situation of the supply side. They need to understand the financial strength, credibility, and cooperation experience of the supplier to ensure that they can provide the required funds on time and in full.

4. ANALYSIS OF THE APPLICATION OF INTERREGIONAL TRUST IN SUPPLY CHAIN FINANCING: TAKING BLOCKCHAIN AS AN EXAMPLE

With the advancement of globalization, supply chain financing plays an increasingly important role in connecting enterprises from different regions, optimizing capital flow, and improving overall operational efficiency. However, trust issues between regions have always been a major challenge in supply chain financing. In this context, blockchain technology, with its unique trust mechanism, provides new solutions for the application of inter regional trust in supply chain financing. Blockchain technology provides a transparent and traceable information sharing platform for supply chain financing. By recording all transaction information on the blockchain, all links in the supply chain can view and verify this information in real time, eliminating the problem of information asymmetry. This transparency helps to enhance trust between enterprises in different regions, making supply chain financing activities smoother (Xu Didi, 2019). The decentralized nature of blockchain technology helps to break down trust barriers between regions. Traditional supply chain financing often relies on centralized financial institutions for credit evaluation and fund flow, which may lead to regional unfairness and lack of trust. Blockchain technology, through smart contracts and distributed ledgers, enables direct transactions and settlements at various stages of the supply chain, reducing reliance on centralized institutions and enhancing trust between regions (Liu Lu et al., 2020).

Blockchain technology effectively solves the trust problem in traditional supply chain financing through its unique decentralized characteristics. Traditional supply chain financing often relies on centralized financial institutions for credit evaluation and fund flow, which leads to asymmetry and lack of trust between regions. Blockchain technology, through smart contracts and distributed ledgers, enables various links in the supply chain to conduct transactions and settlements directly without relying on centralized third-party institutions. This decentralized mechanism enables enterprises from different regions to participate in supply chain financing more fairly and transparently, thereby enhancing trust between regions.

In summary, inter regional trust plays an important role in blockchain financing for supply chains. Blockchain technology, through its advantages in decentralization, transparency, and risk reduction, effectively solves the trust problem in traditional supply chain financing and promotes cooperation and development among regional enterprises. With the continuous development and improvement of blockchain technology, it is believed that its application in supply chain financing will become increasingly widespread, and trust between regions will be further strengthened and enhanced.

5. CONCLUSIONS AND SUGGESTIONS

The financing needs in the supply chain usually involve multiple links and enterprises, requiring close cooperation and trust among all parties. However, the existence of trust differences between regions may lead to information asymmetry and financing constraints, making financing for small and medium-sized enterprises more difficult. This dilemma not only limits the development potential of small and medium-sized enterprises, but may also have a negative impact on the operation of the entire supply chain, making it difficult for financial institutions to accurately evaluate the credit status of small and medium-sized enterprises and limit their financing capabilities. A trusting regional atmosphere will guide the demand side to fully disclose their own information and business information, promoting financial communication between the supply side and the demand side. Trust between regions will increase mutual recognition, reduce friction between cooperation, and accelerate capital flow.

The main inspiration from the study of the impact of inter regional trust on supply chain financing is that firstly, policy guidance should be done well. Governments or relevant institutions can formulate

and implement relevant policies to guide and promote cooperation and trust building among enterprises in different regions. By establishing an information sharing platform or mechanism, information in the supply chain can be more transparent and circulated, reducing information asymmetry and lowering financing difficulties. At the same time, by enhancing trust and information transparency, financial institutions can more accurately evaluate the credit status of small and medium-sized enterprises, thus being more willing to provide financing support and alleviate the financing pressure on small and medium-sized enterprises. Secondly, it is possible to attempt to build a platform specifically designed to provide financing services for enterprises in the supply chain, in order to concentrate and optimize financing resources. Through the platform, integrate upstream and downstream enterprise resources in the supply chain to form a synergy and improve overall financing capabilities. By optimizing the platform's processes, reducing intermediate links, and providing one-stop services, we can improve the efficiency and convenience of financing and enable small and medium-sized enterprises to obtain financing support more quickly.

ACKNOWLEDGMENTS

This study was supported by Undergraduate Research Innovation Fund Program of Anhui University of Finance and Economics (XSKY23105).

REFERENCES

- [1] Zhou Xiaozan, Gao Peiying, Zhu Shiyu. Research on the impact of supply chain finance on the risk level of small and medium-sized enterprises from the perspective of financing constraints [J]. *Credit Reporting*, 2023, 41 (03): 80-86.
- [2] Han Jun, Zhang Jiaming. Research on Regional Differences and Convergence of Modernization Level of China's Industrial Chain and Supply Chain [J]. *Journal of Chongqing University of Business and Technology (Social Science Edition)*, 2023, 40 (05): 15-30.
- [3] Lin Jianhao, Xin Ziqiang, Fan Jialin, et al. The bilateral trust model between provinces in China and its formation mechanism [J]. *Economics (Quarterly)*, 2018, 17(03): 1127-1148.
- [4] Yang Yang, Xie Jiasong, Lin Jianhao, et al. Trust Network, Capital Flow, and Regional Development Gap [J]. *Systems Engineering Theory and Practice*, 2020, 40 (09): 2222-2235.
- [5] Xu Shujun, Ma Shihua. Research on Trust Mechanisms between Supply Chain Enterprises [J]. *Industrial Engineering and Management*, 2000, (06): 5-8.
- [6] Zhang Weihua. Research on the Impact of Supply Chain Finance Models on Financing of Small and Medium Enterprises [J]. *China Industry and Economics*, 2023 (19): 152-154.
- [7] Xu Didi. Research on the Application of Blockchain Technology in Supply Chain Finance [J]. *Southwest Finance*, 2019 (02): 74-82.
- [8] Liu Lu, Li Yongjian, Jiang Tao. Supply chain financing strategy based on blockchain credit transmission function [J]. *Systems Engineering Theory and Practice*, 2021, 41 (05): 1179-1196.