

The Impact of the COVID-19 Pandemic on Small and Medium-sized Enterprises (SMES) in China

Heran Wang^{1,a,*}

¹Beijing Royal School Beijing, China.100000

a. 17610178551whr@sina.com

**corresponding author*

Abstract: In the era of the epidemic, many small and medium-sized enterprises have suffered great blows, including insufficient funds, unable to finance, limited imports and exports, increased production costs and declining user demand. At the same time, there are also small and medium-sized enterprises that will also have relative solutions and development strategies. This paper focuses on the problems encountered by SMEs and how to deal with them. This research can provide some solutions to the SMEs which is suffering from the pandemic. This paper uses both the literature analysis method and the case analysis method. The conclusion is that although the economy is sluggish and many small and medium-sized enterprises will encounter economic crises, there are still some ways to alleviate the problem.

Keywords: Small and Medium-Sized Enterprises(SMES), COVID-19, imports, exports

1. Introduction

The widespread COVID-19 pandemic has had a great impact on people's lives and has also had a certain impact on the economy in China. Small and middle-sized enterprises will experience a huge strike. These companies do not have huge capital support, no large-scale market, and no visibility, and it is difficult to promote their products in order to increase sales. Therefore, this academic paper aims to study the impact of the COVID-19 epidemic on small and medium-sized enterprises and list some solutions that can be used as a reference. Chinese SMEs occupy more than 99% of the total number of enterprises, generate 60% of the country's GDP, contributing more than 50% in tax revenue, and provide 70% of foreign trade exports and 75% of urban jobs [1]. This paper uses the method of literature analysis and case analysis to list some problems encountered by small and medium-sized enterprises in the epidemic and solutions, which can provide some reference solutions for confused business owners.

2. Problems and Challenges Faced by Small and Medium-Sized Enterprises Before the COVID-19 Pandemic

The development scale of small and medium-sized enterprises is small and the influence is insufficient. In the development process of SMEs, they will be affected by many kinds of constraints, compared with large enterprises, The scale and strength of SMEs are limited, and the funds and technology are lacking, In particular, SMEs cannot carry out a large number of assembly line production like large enterprises, and the production of a single product cannot affect other

enterprises or consumers. And it is impossible to hire excellent talents with high salaries, resulting in insufficient innovation ability of enterprises.

Financing channels for SMEs are a problem and the bank credit of large enterprises in the financial market. The loan coverage ratio has reached 100 percent, while the credit ratio for SMEs is low. In addition, in terms of private lending, there is a risk of high-interest rates; some lending companies have irregular lending procedures, and the relevant legal system is not perfect; moreover, the government's control over private lending is relatively strict, and many factors have intensified The difficulty of financing SMES [2]. The financing channels for small and medium-sized enterprises need to be improved urgently.

Table 1: Financing structure for SMES in China(Before the pandemic).

	Own funds	Loans	Issuance of bonds	Stock	Others
Ratios	60%	20%	0.3%	0.6%	19.1%

SMES lack sufficient capital and therefore not enough capital to retain talent. The compensation system is not reasonable enough and the company can provide less benefits to talent. This increases the loss of talent.

3. The Main Problems and Difficulties Faced by SMES after the Emergence of the Epidemic

3.1. Funding Issues

Due to the economic downturn caused by the epidemic, the income of SMEs will be greatly reduced. Therefore, the problem of funds will become the main factor in knocking down SMEs, and the funds held by owners of the companies will become less and less, so financing will become difficult because according to the above table, the financing of Chinese SMEs mainly comes from the personal assets of business owners. The early and middle stages of the epidemic is severe, large-scale movement of people was prohibited, and many enterprises could not operate normally, resulting in a decline in income [3]. Besides, losses in specific industries may be greater, such as cultural tourism, catering, transportation, film and television entertainment, real estate, etc. Because of China's stricter epidemic prevention policy, when there are cases of Covid-19 virus infection in public places, these places are shut down and wait for the next step of disinfection.

3.2. Impact on Imports and Exports

For the foreign trade industry or electronic industry, the state's control will lead to many products can not be exported to foreign countries in a timely manner, and many foreign products cannot be introduced to the country in time, which is also a great blow to SMEs. For the mechanical and electronic industries, China's dependence on Japanese and South Korean products is especially huge. According to the statistics of Japanese and South Korean customs, in 2018, Japan's and South Korea's exports of mechanical and electronic products to China accounted for 43.1% and 54.3%, of the whole exports, respectively, mainly including raw materials, machinery and equipment [4,5]. Panasonic, SONY, Samsung and other Japanese and Korean enterprises still have an obvious impact on China's electronic mechanical industry chain.

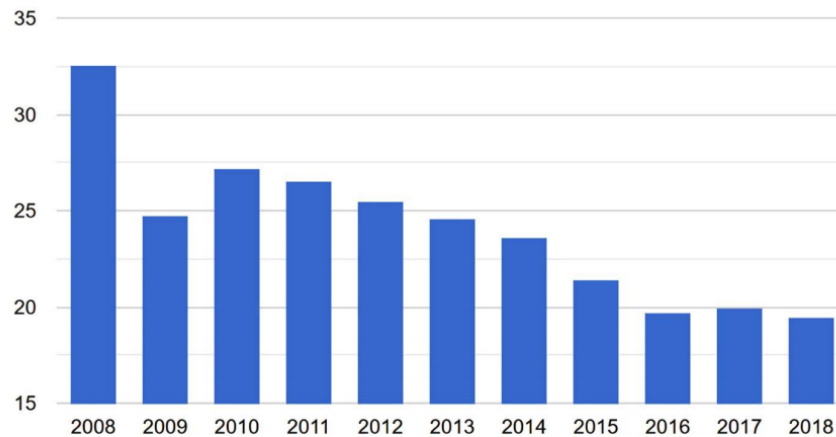


Figure 1: Exporting share of GDP from 2008-2018.

3.3. Resuming of Work and Production

In most parts of China, the issue of resuming work and production has also become a major factor in knocking down small and medium-sized enterprises. Some cities have been locked down due to the epidemic, people are locked up at home, and services such as restaurants and hotels cannot operate [4]. While many SMEs have no way to resume production during the epidemic, they also have to bear the costs of paying basic wages for employees and paying rent and utility bills, and even many SMEs have not survived until the resumption of work is on the verge of bankruptcy.

3.4. Issue of Production Costs

Because of the economic downturn, SMEs will encounter reduced demand, and some SMEs will raise the price of their products because the cost of production has increased, but this will lead to lower consumer demand and lower incomes. SMEs often do not have a complete industrial chain, and dealers need to buy products from producers. These producers also experience insufficient staff, difficulty in capital turnover, or factories that cannot operate due to the Covid-19 pandemic, resulting in higher production costs. Therefore, the cost of dealers will also increase, and the price will be higher than the original, resulting in a more serious decline in demand [6].

3.5. Case of Author's Aunt's Restaurant

My aunt runs a Western restaurant and belongs to a typical small and medium-sized enterprise. Mainly serves steaks and some seafood. Before the epidemic, the annual net income could reach 600,000 yuan (after tax). But since the beginning of the epidemic in 2020, the restaurant has suffered a big strike. First of all, the company's chef, a Serbian chef, was restricted by Chinese policies from returning to China. The Chinese government has reduced flights to and from the country, resulting in very expensive and hard-to-find tickets. The restaurant can only find a new chef in China and pay the original chef's severance fee. It is not a small expense because the chef's salary is high, in the early stage of the epidemic economic downturn.

But more and more problems are coming. After hiring a new chef, the restaurant's community was restricted from operating due to the outbreak of the epidemic. Customers can't eat in-store, which leads to revenue being generated only through takeaways. However, the prices of Western restaurants are relatively high, resulting in not many customers on takeaway platforms. So the restaurant still has to spend the same utilities, employee wages, and rent. But it didn't generate a lot of revenue, which led to the restaurant having to lay off some of its staff.

In fiscal years 2020-2021, my aunt's restaurant's net profit is -280,000 RMB. Because the rent is very expensive, and the labor cost is not cheap. At the beginning of the year 2021, my aunt thought the epidemic would improve, so she continued to open the restaurant. At this time, her suppliers raised prices. Because the epidemic has led to an increase in personnel costs, the price of raw materials (meat, seafood) has also risen. This results in incomes remaining unchanged while spending increases. Eventually, my aunt decided to close the restaurant because she couldn't make ends meet. This is also a microcosm of China's SMEs, many service industries, film industries, and hotel industries, are knocked down in this way.

4. Strategies and Coping Methods for SMES

4.1. Try to Open up Markets in Other Regions

Some SMEs that still have capital have certain advantages over larger enterprises, their advantages are that they can move flexibly, SMEs do not have many employees (compared with big enterprises), and capital transfer is less difficult, so they can move their headquarters abroad. Thus becoming MNCs (Multinational Companies). There are four types of MNCs, international, transnational, global and multinational. In short, international companies are exporters and importers [7]; they have no foreign investment and make their products or services only in their home country. Transnational companies invest in many countries, may have global headquarters, but also distribute decision-making power to various national headquarters. Multinational companies, in the narrower sense, have investments only in a few countries and are more responsive to local preferences than global companies. Global companies, on the other hand, have investments in dozens of countries but maintain strong headquarters only in one, usually their home country [7]. Therefore, in the current situation, some SMEs with relatively strong capital can transfer their companies to the United States or Europe. Inflation rates in these areas are relatively high, but the import and export trade and management policies of these countries are very reasonable. So this can generate more revenue.

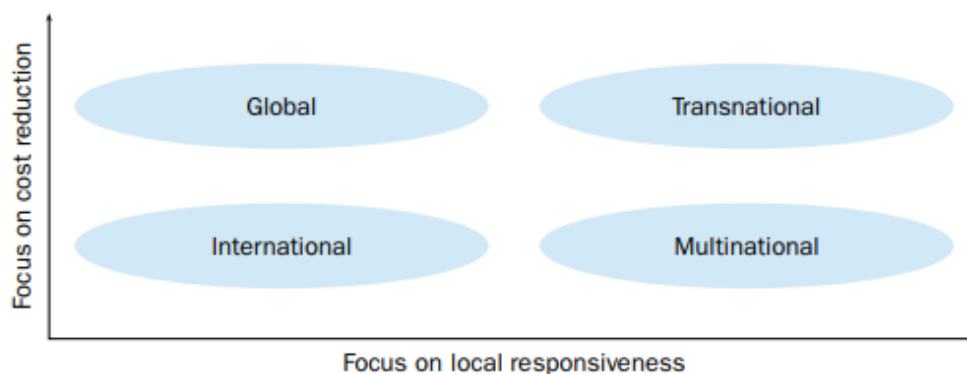


Figure 2: Types of MNCS.

4.2. Transformation of SMES

4.2.1. Digital Economy

Some SMEs that do not have strong capital should consider corporate transformation. The digital economy will not be restricted by the epidemic, and the so-called digital economy refers to the full use of data technology to effectively identify, screen and integrate relevant data [8]. From a technical point of view, the digital economy includes emerging industries such as artificial intelligence and has

applications in the retail industry and manufacturing industries [9]. In the era of the digital economy, enterprises in the process of production and operation, the appropriate introduction of digital technology, can improve the efficiency of production and operation to a certain extent; Second, digital technology can greatly reduce the workload of staff, thereby reducing the consumption of labor costs, which is very helpful for SMEs with relatively little capital [9,10].

4.2.2. Some Industries That Can Take Advantage of the Covid-19

The Covid-19 pandemic is persistent and contagious, so in such an environment, medical device companies and PCR test companies will have the opportunity to profit, and some licensed SMES can switch to making masks or disinfection products. Without the relevant license, some SMEs can also switch to the production of raw materials for masks or protective clothing. In addition, SMEs that produce swabs can also profit from this, as PCR tests require a large number of swabs.

5. Conclusion

Before the pandemic, the main problems faced by SMEs were small market and capital constraints. However, in the era of the epidemic, the main problems faced by small and medium-sized enterprises are the financial problems caused by the economic downturn, financing difficulties, the inability to operate under the control of national policies, as well as the problems of resuming work and production and rising production costs. The epidemic has dealt a big blow to the service industry, the hotel industry, the tourism industry, and the manufacturing industry. But SMEs can expand their markets and expand their profits through a reasonable transformation. For example, the development of the digital economy and the transformation of the production of epidemic-related products. For example, masks, protective clothing, PCR reagents, cotton swabs, and drugs to treat Covid-19. Inevitably, such a large environment will lead to a bunch of SMEs withdrawing from the market, but it will also lead to more SMEs joining the market.

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