

# ***Research on the Impact of the COVID-19 on Small and Medium-sized Enterprises in China***

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**Abstract:** The global economy has been hit hard by the COVID-19 epidemic that broke out in late 2019. China is particularly important since it is both the core of the pandemic and a major player in the global economy. This paper examines how the epidemic of COVID-19 affected China's SMEs, discussing the role these companies play in the country's economy, the difficulties they encountered, and the solutions they came up with. The research used qualitative methods to report the findings and present a discussion. This paper is based on a collection of papers retrieved from Google Scholar, using keywords such as China, COVID-19, etc. After reading the titles of each article with these keywords, this paper has chosen numerous articles to do the content analysis. On the basis of findings, it can be concluded that the COVID-19 pandemic had a significant impact on China's SMEs, exposing weaknesses in their operations and stressing the need for government assistance.

**Keywords:** COVID-19, China, SMEs

## **1. Introduction**

SMEs are important to the economy of China because of the many jobs they create, the new ideas they foster, and the overall development they spur [1]. The epidemic brought to light the specific challenges that Small and Medium-sized Enterprises (SMEs) confront even as they play a crucial role in times of crisis. Large companies may be more powerful and stable, but SMEs make up the bulk of the economy and should be taken into account in any thorough review. The aim of this paper is to identify the impact of COVID-19 on SMEs in China. This paper also refers to the global impact of COVID-19, and it also defines the reason for which this research is being conducted on SMEs and discusses the importance of SMEs for China, and how SMEs as a whole have been affected by COVID-19. The global economy has been hit hard by COVID-19 epidemic that broke out in late 2019. China is particularly important since it is both the core of the pandemic and plays a major role in the global economy [1]. This paper examines how the epidemic of COVID-19 affected China's SMEs, discussing the role these companies play in the country's economy, the difficulties they encountered, and the solutions they came up with. When it comes to employment, innovation, and general economic vitality, SMEs in China are at the forefront. Despite their importance, the unique vulnerabilities and repercussions that SMEs experience during crises are typically neglected by previous studies [2].

This paper is divided into numerous sections. The first section defines the introduction of the paper, in which the impact of COVID-19 on SMEs in China is discussed. The second section of this paper

develops micro- and macro-level analysis for identifying the accurate impact of COVID on SMEs in China. Then, in the end, the discussion section on this topic is developed, and the paper is concluded with the conclusion section. This paper aims to identify the impact of COVID-19 on SMEs in China. This paper is based on a collection of papers retrieved from Google Scholar using keywords such as China, COVID-19, etc.

## 2. Macro Level Analysis

The impacts of COVID-19 on China's SMEs were significantly influenced by macro-level government policies. In the beginning, strict lockdown measures were put in place to stop the virus from spreading [2]. The measures had a significant impact on SMEs, especially those that relied on direct customer contact [3]. However, the lockdown tactics improved over time, making them more specific and adaptable, allowing some SMEs to partially restart operations. The government's reaction also included substantial financial help. The Chinese government took many initiatives to help SMEs recover financially after the epidemic. Grants, low-interest loans, and tax breaks were all part of these programs. It is worth noting that the majority of the funding went toward U.S. small and medium-sized enterprises (SMEs), which might put international SMEs at a disadvantage.

Lockdowns, travel restrictions, and decreased consumer spending all caused problems for China's SMEs, which rely significantly on exports and supply networks. Many Chinese SMEs participate in intricate international supply networks. SMEs were severely impacted by supply chain disruptions due to factors such as manufacturing closures, transit restrictions, and logistical problems. SMEs have a hard time getting loans and credit even under normal economic conditions [4]. Because of the epidemic, financial institutions were increasingly hesitant to lend money, exacerbating the problem. The government stepped in with interventions and stimulus measures to help the economy, but the results were mixed. The job market was impacted by lockdowns and limitations. SMEs were hampered by labor shortages since many employees were unable to return to work owing to geographical or health-related obstacles. This reduced manufacturing capacity and increased operational difficulties.

## 3. Micro Level Analysis

The degree of interruption varied across sectors. SMEs that rely on people traveling and interacting socially were struck especially hard [1]. On the other hand, demand rose in the healthcare, technological, and internet service industries. SMEs have to adjust their strategies to meet the shifting demands of the marketplace and its customers. SMEs prioritized operational resilience and flexibility to deal with the unknowns caused by the epidemic [3]. Many have sped up their attempts to become digital, putting money into things like cloud computing, remote collaboration software, and e-commerce sites. Because of this flexibility, SMEs may swiftly adjust their strategies in reaction to new information or events. The study at a more granular level shows that the COVID-19 epidemic had a major effect on Chinese SMEs [2]. SMBs faced a tangled web of difficulties in areas as diverse as internal logistics, marketing, payment systems, and human resources [4]. Their resilience in the face of adversity was shown by the speed with which they were able to adapt, invent, and adopt agile tactics. Chinese SMEs will continue to adapt their tactics in light of these lessons, resulting in a more robust and well-prepared business environment.

COVID-19 had a significant impact on the day-to-day operations of small and medium-sized businesses. Logistics and finance were among the internal processes that were impacted by disruptions in the supply chain, transportation constraints, and lower customer demand. In order to keep their businesses running, SMEs have to overcome these obstacles. There was also a major impact on advertising and sales techniques. Due to customers staying inside during lockdowns, typical

marketing strategies were less successful. To keep up with the competition and keep their customers interested, SMEs have to quickly embrace digital platforms and e-commerce solutions. SMEs were also pushed to modify their product lines in response to changes in customer behavior and tastes.

The ways that money may be exchanged have also changed. As people became more hesitant to handle currency owing to health concerns, contactless and digital payment alternatives grew in popularity. Small and medium-sized businesses were pushed to quickly adopt these new payment methods. The administration of human resources presented new difficulties [5]. Worker recruitment and retention suffered as a result of lockdowns and travel restrictions. For certain small and medium-sized enterprises (SMEs), remote work is now indispensable, requiring changes in both technology and management [6]. Microscopically, the COVID-19 epidemic had a wide-ranging effect on China's SMEs, touching on many different facets of their operations and calling for nimble solutions. This section digs into the specific difficulties encountered by SMEs, as well as the methods they used to deal with these unusual conditions.

#### Internal Operations: Logistics and Financing

Internal activities, especially those involving logistics and money, were profoundly impacted by the epidemic. The distribution of products and services was hampered by breakdowns in the supply chain, transportation bottlenecks, and decreased customer demand. SMEs have to quickly adapt by finding new sources of supply, modifying manufacturing methods, and assuring on-time delivery [7]. As sources of income diminished, access to capital became a pressing issue. Credit became more difficult to get, forcing small and medium-sized enterprises to either find new sources of finance or restructure their current financial arrangements [8]. Some SMEs have resorted to fintech solutions and online lending platforms to raise vital operating funds.

A radical change in advertising tactics was required as a result of lockdowns and social isolation policies. Due to dwindling foot traffic, many brick-and-mortar establishments have been forced to shift their focus online [9]. Sales were able to be sustained and homebound customers could be reached thanks to the rise of e-commerce, social media, and online advertising. Small and medium-sized businesses swiftly adjusted their marketing materials to accommodate shifting customer attitudes and objectives [4]. As a consequence of the pandemic's impact on the economy and on consumers' wants and requirements, several businesses have implemented new forms of advertising.

Hygiene concerns about handling cash resulted in a shift away from using paper bills. More and more people are turning to contactless and digital payment methods since they are safer. Small and medium-sized businesses were pressed to adopt these methods of payment quickly so that their consumers could enjoy a safe and streamlined checkout process [5]. In addition, the pandemic altered the tastes and habits of the general public. Small and medium-sized businesses were challenged to anticipate and meet consumers' changing demands for improved sanitation, security, and ease of use [4]. Products diversified and improved in response to this change in the new normal.

The epidemic compelled SMEs to reevaluate their HR strategies. Rapid deployment of remote-working infrastructure and new communication protocols was necessary due to lockdowns and mandated remote work. The need to manage distributed teams, track output, and keep workers engaged increased significantly [10]. The hiring and onboarding procedures were also affected and had to be modified virtually. Some small and medium-sized businesses (SMEs) have implemented remote team-building activities and mental health tools for their employees.

#### 4. Impact on SMEs

As a consequence of the epidemic, SMEs were pushed to adopt technology-driven solutions [5]. Even once lockdowns are lifted, online sales will remain a significant way to contact consumers [5]. SMEs that want to stay competitive must spend money on powerful online platforms, improve the user experience, and leverage data-driven insights to adapt their products and services to customers'

shifting preferences. The global supply chain disruptions highlighted the dangers of putting too much faith in one location, highlighting the need to diversify and strengthen supply systems worldwide [1]. Because of this, SMEs are likely to switch to supply chain tactics that are more flexible and varied. Supply chain resilience may be improved by collaborations with local suppliers and the use of cutting-edge technology like blockchain for transparency and traceability.

## 5. Impact of New Rules and Regulations

The epidemic highlighted the need for all-encompassing government assistance for SMEs in times of crisis [10]. Going ahead, it is critical for policymakers to use the lessons gained from the pandemic to foster an environment conducive to the expansion of SMEs [11]. This entails doing things like cutting down on red tape and giving targeted financial help and incentives for R&D and other forms of innovation promotion. The trend toward remote work has increased the need of training and retraining employees in new skills [2]. To adapt to changing work requirements and new technologies, SMEs will need to make investments in their employees' reskilling and upskilling. Increased efficiency and output may result from adopting remote work on a permanent basis and using flexible workforce models. Awareness of the interdependence of economies, cultures, and ecosystems was heightened as a result of the epidemic, which has implications for sustainability and CSR [5]. Sustainable and ethical business practices are becoming more and more of a priority for consumers. SMEs that prioritize social and environmental sustainability in their operations will stand out from the competition and appeal to ethical buyers.

The pandemic's difficulties highlighted the need for new approaches to old problems [8]. To adapt to the ever-evolving needs of their target markets, Chinese SMEs will certainly increase their investment in R&D. The key to fostering innovation will be fostering partnerships with academic institutions and making use of new technology. The epidemic highlighted the dangers of focusing on just one market, highlighting the need for global engagement and market diversification [10]. To offset the risks associated with volatility in the domestic market, Chinese SMEs are likely to investigate overseas growth opportunities and broaden their client base. International cooperation and cross-border e-commerce will be important in this effort. An international health catastrophe with far-reaching repercussions for economies and society has been triggered by the late-2019 epidemic of a new coronavirus illness (COVID-19). When it comes to driving development, innovation, and job creation, small and medium-sized businesses (SMEs) are indispensable [10]. Because of its size, China's economy is comparable to others throughout the globe. This paper investigates the severe consequences of COVID-19 on China's SMEs, as well as the obstacles and possible solutions to these problems.

## 6. Impact of COVID-19

Many companies had to shut down or limit operations as a result of the pandemic so that the virus would not spread further. SMEs were particularly hard hit since they lacked the financial resources and resiliency of their bigger counterparts [12]. Supply chains were thrown off by lockdowns, travel restrictions, and labor shortages, making it impossible for SMEs to get supplies and components. Supply chain inefficiencies meant manufacturing delays and higher expenses as a result. As customers shifted their spending priorities to focus on necessities, many SMEs saw a drop in demand for their products [13]. SME finances were already under stress before this drop in consumer spending added to the problem. Many businesses had to immediately adjust to the shifting market conditions by expanding their product lines or moving their operations online. Limited resources and liquidity leave SMEs especially susceptible to economic downturns. Many SMEs had trouble paying their bills as usual because of cash flow issues brought on by the epidemic [1]. Furthermore, as financial

institutions grew more cautious about lending, SMEs found it increasingly difficult to get the cash they needed for survival and expansion. Despite the fact that the pandemic made life more difficult for SMEs, it also provided an opening for digital transformation and e-commerce. Many small and medium-sized businesses (SMBs) have shifted their marketing and other business activities online. Those that were able to adapt to the changing digital scene saw increased profits and a broadening of their consumer base beyond their original physical location.

In light of the vital role that SMEs play in China's economy, the government has taken a number of steps to cushion the blow of the epidemic [5]. Aid in the form of money, tax breaks, grants, and loans were all part of these plans. SME access to government aid and navigation of regulatory hurdles have also been simplified by new rules that shorten administrative procedures. Many micro, SMEs have shown tenacity and creativity in the face of hardship. Some companies redirected their factories to make desperately needed medicines, which aided in the fight against the epidemic [4]. While others attempted to adjust to the new conditions by investigating alternative company structures, partnerships, and collaborations. These measures not only helped SMEs withstand the storm, but also set them up for future expansion.

The pandemic's disruption emphasized the need for creating supply networks that are both robust and varied. Many Chinese SMEs understood the dangers of being too dependent on one supplier. Therefore, there has been a push to use more vendors and investigate local choices. To lessen their exposure to supply chain disruptions in the future, several SMEs have also investigated forming agreements with suppliers in other areas.

The pandemic hastened changes in consumer behavior, with more consumers resorting to digital services like online purchasing [10]. As a result of this shift, many medium and small enterprises (SMEs) rethought their operations and gave more weight to their online profiles. Businesses with little or no online presence at the time moved rapidly by creating websites, social media accounts, and online payment systems. This shift not only helped SMEs weather the storm, but also set them up for success in the emerging digital economy. SMEs have trouble keeping a consistent staff due to lockdowns and mobility restrictions [12]. In order to keep businesses running, many people have had to start using remote workers and digital communication technologies. With this change, the potential savings from telecommuting and other alternatives to traditional office settings became more apparent. It also encouraged SMEs to train their workers in innovative techniques.

## 7. Conclusion

In conclusion, the COVID-19 epidemic had a significant impact on China's SMEs, exposing weaknesses in their operations and stressing the need for government assistance. This article has covered the broad strokes and the finer details, illuminating the struggles and triumphs of China's SMEs as they dealt with the epidemic. Future strategies for bolstering corporate resilience and adaptability will surely be influenced by the lessons learned by SMEs during this crisis. The COVID-19 epidemic in China has created new obstacles for SMEs, affecting their day-to-day operations, financial security, and future development. However, the crisis has also shown the value of flexibility, creativity, and government aid in overcoming adversity. The long-term viability of SMEs depends on their use of digital technology, acceptance of online commerce, and use of government programs. The lessons from this crisis may also help SMEs become more robust in the face of future challenges. The impacts of COVID-19 on China's SMEs were far-reaching and complex. SMEs showed amazing tenacity, adaptation, and inventiveness in the face of disruptions and difficulties brought on by the first shock. The crisis has hastened changes like the rise of remote labor and digital transformation in the supply chain. To lessen the blow and help SMEs get back on their feet, the government stepped in with aid, legislative measures, and collaborative initiatives. The key to the continued expansion

and success of China's SMEs in the post-pandemic world will be the application of these lessons and the pursuit of new possibilities.

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