

# The Impact of COVID-19 on SMEs and Measures for Resuming Production

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## ABSTRACT

With the continuous development of society, public health emergencies have attracted more attention, such as SARS, influenza, bird flu, etc. Novel Coronavirus is the latest outbreak, which has brought different impacts on China's economy, society, ecology, politics and national security. This article will analyze the economic situation under the epidemic situation, and then analyze the impact of COVID-19 on small and medium-sized enterprises in China. In view of the fact that the epidemic situation has not yet ended, suggestions and opinions are put forward on the resumption of work for small and medium-sized enterprises in China.

**Keywords:** COVID-19, Small and medium-sized enterprises, Policy recommendations

## 1. INTRODUCTION

Covid-19 has had a huge impact on the world since the outbreak, and the situation in China is at an end and the overall situation is recovering. The number of domestic cases decreased, but the number of imported cases increased because of the increasing number of foreign cases. For other countries, the outbreak is in full swing, with the cumulative number of cases reaching one million. On the whole, the epidemic has a serious impact on China's economy, especially on China's small and medium-sized enterprises. The heavy pressure brought by the failure of some enterprises, capital chain break and the failure of cooperative enterprises makes the operation of small and medium-sized enterprises worse. With the outbreak over, some small and medium-sized enterprises are about to resume production. In this process, how to make the enterprise through the crisis, upstream and downstream enterprises, the flow of materials, these problems are the test of small and medium-sized enterprises. This paper will analyze the influence of COVID-19 on small and medium-sized enterprises, and put forward the corresponding countermeasures to resume work.

## 2. ECONOMIC SITUATION UNDER COVID-19

### 2.1. Industries

Since the outbreak of the new crown epidemic, several major mainstream industries in China, such as transportation, manufacturing, catering, entertainment and

culture, have been most seriously affected, while other industries have also been affected differently.

Due to the "human-to-human transmission" nature of the epidemic, in order to avoid further deterioration of the epidemic, prevention and control policies have been issued one after another. In terms of urban management, some cities, roads, buses were shut down, flights, airports and high-speed trains are affected. In terms of personnel mobility, communities adopted measures like closed management, registration of entry and exit and measurement of body temperature. According to the national bureau of statistics, as of January 20, 2020, the purchasing managers' survey showed that the purchasing managers' index (PMI) of China's manufacturing industry in January was 50.0%, 0.2 percentage points lower than that of the previous month, which is at the critical point. The composite PMI output index came in at 53 per cent, down 0.4 percentage points from the previous month.

In the manufacturing industry, due to the closure of some enterprises and the return of employees, it is more difficult for enterprises to resume work. And the production among mutual cooperative enterprises is not equal. Some enterprises have temporarily transformed to produce scarce materials due to the epidemic situation, which has affected the production of normal enterprises to a certain extent. According to the national bureau of statistics, as of January 20, 2020, the purchasing managers' survey showed that the purchasing managers' index (PMI) of China's manufacturing industry in January was 50.0%, 0.2 percentage points lower than that of the previous month, which is at the critical point. The composite PMI output index came in at 53 per cent, down 0.4 percentage points from the previous month.

In the catering industry, due to restrictions on personnel travel, human-to-human transmission of the epidemic and other reasons, a large number of catering industries closed down, food stocks were sold at low prices, and large-scale dinners were cancelled, resulting in serious losses in the

catering industry. In terms of tourism, due to the blockade of some cities, the number of tourists has been greatly reduced, major scenic spots have been closed, and traffic control has been carried out. In the cultural industry, some of the 2020 Spring Festival New Year's greetings have been cancelled and most cinemas have been closed. The performance of literature and art will be cancelled, and TV programs will be recorded without audience.

## **2.2. Demand side**

Affected by the epidemic, residents' willingness to consume has decreased, especially in catering, entertainment and tourism. With the introduction of policies such as city closure and personnel restriction, residents' psychology is in a state of panic and anxiety about the epidemic and loses interest in most recreational activities.

Most residents focus their needs on medical protection, grain reserves and vegetable reserves. Due to limited offline transactions and inconvenient travel, residents have focused their consumption on the Internet, adopting online shopping, reservation and other situations[1]. Some merchants have also expanded their business to online transactions, resulting in a substantial increase in online transactions.

## **3. THE IMPACT OF COVID-19 ON SMALL AND MEDIUM-SIZED ENTERPRISES**

Most small and medium-sized enterprises are important participants in the manufacturing industry chain, and they are also large-scale supporting suppliers or service providers involved in the production. Under the epidemic situation, if upstream and downstream enterprises cannot resume work in time, then the survival of small and medium-sized enterprises will face great problems.

### **3.1. Labour Shortage**

Most small and medium-sized enterprises are labor-intensive industries with single products, simple equipment and technology, and relatively backward working methods. Most of its production and operation depend on the input of labor force, while China has always lacked suitable labor force and high-end talents in labor-intensive industries. Affected by the epidemic situation, migrant workers and local enterprises are restricted from employing, making it impossible for migrant workers to return to their jobs in time, while enterprises cannot carry out their work normally due to employee problems.

Nowadays, enterprises tend to develop more intelligent and digital industries. More labor-intensive industries have been replaced by intelligent electronic equipment. The backward production mode makes small and medium-

sized enterprises unable to operate continuously during the epidemic, resulting in a large number of losses.

### **3.2. Break of Capital Chain**

Due to the epidemic situation, small and medium-sized enterprises cannot start work effectively, but the wages, rent and interest borne by the enterprises are still being spent, resulting in a significant increase in the operating costs of the enterprises. At the same time, the upstream and downstream enterprises have not resumed work in an all-round way. Some production have been restricted, products cannot be sold effectively, and some materials have not resumed work at the purchase end, resulting in business problems of the enterprise.

For a long time, high financing costs and difficult financing channels are also problems existing in small and medium-sized enterprises. During the epidemic period, enterprises' expenditures increased, recovered funds decreased, and high interest costs made small and medium-sized enterprises face a huge test in terms of funds.

### **3.3. Disjointed Upstream and Downstream Enterprises**

Most of the small and medium-sized enterprises are manufacturing industries. The main characteristics of manufacturing industries are that production, supply and market are closely linked, coordinated and restricted. If there is a problem in one of the links, it will lead to problems in the whole process.

On the supply side, due to the low return rate of the market, the upstream enterprises of some small and medium-sized enterprises in the manufacturing industry, i.e. Raw material factories, parts factories and other also intensive enterprises, have not started normally.

Then the problems in the supply of raw materials for small and medium-sized enterprises and the imperfection of related supporting facilities restrict some of the production and operation of enterprises. Under normal circumstances, enterprises will not hoard a large number of basic accessories such as raw materials, so most of them still rely on the supply chain of the enterprises. Therefore, once the suppliers have problems, the enterprises will have insufficient output and cannot deliver goods on a regular basis. No resumption of some enterprises means the reduced demand of the whole market.

However, as the market demand decreases, enterprises will produce too much and overstock goods. The failure of downstream industries to proceed smoothly will directly affect the supply of upstream enterprises, thus affecting the entire industrial chain and forming a vicious circle.

## **4. MEASURES FOR SMALL AND MEDIUM-SIZED ENTERPRISES TO RESUME WORK**

### ***4.1. The Government Supports the Development of Enterprises in Terms of Their Categories***

First, the government should introduce relevant policies in the future to help enterprises to resume their work, support small and medium-sized enterprises in difficulty, and relax regulation appropriately[2]. The government should create a level and stable playing field to prevent some enterprises from grabbing resources and bidding up prices. Second, the government should adopt a prudent fiscal policy in the future. It has introduced the policy of reducing taxes and fees and adopted special policies for some enterprises that strongly supported the epidemic areas during the epidemic period. For enterprises that have made contributions to society during the epidemic period and enterprises that have difficulties during the epidemic period, the banking institutions should relax the loan terms and lower the loan interest rate[3].

### ***4.2. Enterprises Shall Make Corresponding Adjustments According to the Epidemic Situation***

In terms of production and operation, enterprises should adjust their production according to their own operation during the epidemic period, hoarding or reducing prices for some products that cannot be stopped, and temporarily stopping production for some products that can be reduced in production or have no demand for the time being. Discounts and price reductions will be made for hoarded products, and online and video sales will be adopted to promote product sales. For some rented factories, venues, etc., negotiate with the tenants and adjust the prices appropriately.

In terms of enterprise management, management has changed from extensive management to fine management, reducing management levels and management costs. Adopt active employee strategies and actively negotiate with employees to reduce wages appropriately; You can also take this opportunity to adjust the staff.

### ***4.3. Adjust the Future Development Direction of the Enterprise***

First, the strategic development of enterprises should conform to the national industrial development direction and the laws of the market economy, have equity and corporate governance structure, employee management system, salary system, medium and long-term incentives,

etc., and have sufficient emergency response capability to deal with a series of unexpected problems.

If the enterprise deviates from the laws of the market economy, it will be difficult for the enterprise to have a foothold in the same industry after the epidemic. However, if there are problems in the enterprise structure, there will inevitably be problems in the future operation, and the problems in the equity legal person will face many difficulties in the future listing.

According to the epidemic situation, it reflects the importance of the enterprise's emergency response capability and whether the enterprise can make correct decisions and survive the crisis in case of emergency.

Second, the business model of the enterprise should be market-oriented. In the short term, the market needs more products such as medical and health care, emergency material support, Internet, intelligence, digitalization, VR, etc. Enterprises produce products that meet the needs of the society and have sufficient patented technical capabilities to support the further development of enterprises.

If the products produced by the enterprise will eventually be eliminated by the market in a short period of time, then the production direction should be adjusted in time. If the enterprise does not have patented technology but relies solely on labor-intensive, it should consider the transformation of the enterprise in time and develop in the direction of high technology, medical treatment and health. Under the condition of building a well-off society in an all-round way, people tend to meet the needs of high quality and high living environment. The current market demand and development direction should be considered in the transformation of enterprises.

## **5. CONCLUSION**

In short, the resumption of work of small and medium-sized enterprises cannot be separated from the support of national policies and the active guarantee of the government. At the same time, small and medium-sized enterprises should also adjust their development direction and strategy in a timely manner, strive to improve themselves and make up for their deficiencies, so as to prepare for the accumulation and thin development after the epidemic.

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