

Research on the Impact of COVID-19 on Middle and Small-sized Enterprises

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ABSTRACT

At a time when economies are growing and increasingly interconnected, the sudden outbreak and spread of COVID-19 at the end of 2019 disrupted the domestic and international economic balance and had a profound impact on social order and macroeconomy. The interruption of the global supply chain has greatly impacted the development of enterprises. The paper will use the research methods of reading large numbers of domestic and foreign kinds of literature and browsing the COVID-19's big environmental data to describe the survival crisis faced by small and medium-sized enterprises under the outbreak of new crown pneumonia and analyze the viability and challenges of small and medium-sized enterprises from two perspectives, namely, short term and long term. Facing the "post epidemic era", this paper puts forward some suggestions on management innovation of small and medium-sized enterprises and promoting the upgrading and transformation of new business models from three aspects. The research results show that with the help of the state and the government, most small and medium-sized enterprises have successfully survived the crisis and are transforming to popular industries and future development industries.

Keywords: *Novel coronavirus, Middle and small-sized enterprises, The supply chain & Demand chain, Macroeconomic.*

1. INTRODUCTION

The outbreak of the novel coronavirus pneumonia not only has a serious impact on the national economy, but also has a serious impact on social order, ecological environment, political and interstate trade. In particular, the market downturn caused by the epidemic has exacerbated the challenges to the survival and development of small and medium-sized enterprises. At present, with the help of the government, most small and medium-sized enterprises have returned to work smoothly, but the problems existing in small and medium-sized enterprises and enterprises about to be transformed will face many problems. Due to the late start of the overall development of small and medium-sized enterprises, the initial scale is small, the development situation is not open, the market demand is small, there are few financing channels, and the development of small and medium-sized enterprises is difficult. In addition, due to overcapacity and insufficient effective supply, the manufacturing industry shows a downward trend, the profitability decreases, the long-term structural imbalance, and the development of the Internet make the expansion of the real economy worse.

In the past decade, the financial industry has grown too fast, rising from 4% to 8.4% of GDP. This has led to a slowdown in financing and investment, as well as structural imbalances in finance and the real economy [2]. This makes China's economic growth face overall downward pressure, leading to operational problems such as financing difficulties and insufficient funds for small and medium-sized enterprises. Even the smooth resumption of work is in danger, and the transformation and upgrading of the enterprise are even more difficult under the conditions that the enterprise itself is not mature and does not have external factors. Through reading articles on COVID-19 at home and abroad, it is found that the problems faced by SMEs are global and tricky, relevant data through observations observed large enterprises during the period of the outbreak is close to running smoothly, both aspects of the company's capital chain or employee wages, even some small problems, also can remedy in time stop in time. The emergence of the epidemic has made it even more difficult for small and medium-sized enterprises, which were originally under the condition of capital shortage and interlocking. The research significance of this paper is to support the recovery, follow-up development and even

transformation and upgrading of small and medium-sized enterprises in an unchangeable environment. As the main force of social development, the survival, development, and innovation of small and medium-sized enterprises are of great significance for stabilizing employment, economic growth, and social development, ensuring the integrity of the ecosystem and the transformation and upgrading of industrial structure [1].

2. SHORT-TERM ECONOMIC PRESSURE ON SMALL AND MEDIUM-SIZED ENTERPRISE

2.1. Novel Coronavirus Disruptions to Supply Chain Suppliers

The global outbreak of novel coronavirus first disrupted the global supply chain system in various directions from the supply side. The COVID-19 outbreak on a global scale first disrupted the global supply chain system in many ways on the supply side. China's transportation, catering and entertainment, tourism, manufacturing, and other major industries have been seriously affected. In particular, the manufacturing industry accounts for more than 30% of the domestic manufacturing industry and is an important hub of the global manufacturing supply chain. Most small and medium-sized enterprises are manufacturing industries. Due to the impact of the epidemic, most enterprises have suspended operations, interrupted normal business activities, and affected the business activities of other enterprises in the domestic supply chain, resulting in unequal production among cooperative enterprises. In addition, some enterprises have urgently transformed to produce medical supplies and supplies in short supply, which greatly affects the normal production of enterprises [6]. Affected by the production of domestic enterprises, the smooth operation between domestic and foreign supply chains is also hindered, resulting in production interruption of multinational companies. China's manufacturing middle and small-sized enterprises are facing huge capital problems and delivery pressure.

2.2. Novel Coronavirus Disruptions to Supply Chain Demand Side

Due to the widespread and fast speed of the epidemic, the vulnerability of the supply chain system has been further amplified from the demand level. To prevent the further spread of the epidemic and increase its influence, the state-issued corresponding policies such as: lockdown, home quarantine and so on. This limits the risk of movement and reduces social interaction. Working from home and taking classes online has eased the inconvenience caused by the epidemic for some enterprises, but it has also greatly reduced consumers'

enthusiasm for consumption. Some enterprises stopped production, wages fell, and even some enterprises directly closed due to cash flow problems, rising unemployment. People's income decreased, living standards declined, consumption decreased. As a result, the market demand level is reduced, making some service enterprises unable to obtain product orders, and production and operation are hit again.

2.3. The impact of Supply and Demand on the Macro-economy

Consumption, investment, and exports, the three drivers of China's GDP growth, have also been hit hard. The epidemic has a huge impact on the macroeconomy from both supply and demand, and the imbalance between supply and demand has severely hit the ability of SMEs to survive. The biggest difficulty they face is the problem of capital, which comes from two aspects: income and expenditure. First of all, in terms of income, there are no orders for major types of enterprises to stop production, so that the cash flow is blocked, the source of income interruption [7]. In addition, as the epidemic spread to the global social and economic risk level has increased, the external environment of enterprises has deteriorated, and enterprises in various industries are in a state of loss. Even though large companies are less threatened by the pandemic than middle and small-sized enterprises, other companies will take measures to reduce losses to their own companies, including withdrawing capital and stopping cooperation. Secondly, in terms of expenditure, fixed costs such as staff salaries and housing rental fees for five insurances and one house have not been reduced during the shutdown period. And in bank loans and non-financial institutions financing interest expenses, making financing more difficult.

3. LONG-TERM ECONOMIC PRESSURE ON SMALL AND MEDIUM-SIZED ENTERPRISE

3.1. Global Supply Chain Disruptions Lead to Long-term Effects

As the virus spread around the world, countries began lockdown policies. Due to the shutdown of domestic small and medium-sized enterprises, orders were transferred to Vietnam, and foreign customers in Thailand and other countries also stopped order demand and production and supply due to the blockade of various countries. Production stagnation in these big countries has led to disruptions in global supply chains, which have further affected the production of domestic SMEs by blocking import channels. The countries most seriously affected by the epidemic, such as the United States, the United Kingdom, the European Union, Japan, and South Korea, are the core of the international supply chain [8].

As the world's main importer of intermediate products, the production fluctuations of these economies are directly related to the reduction of demand for upstream countries. As an important supplier of the manufacturing industry of the third country, the suspension of production in the upstream countries indirectly leads to the interruption of production in the downstream countries [8]. For many high-tech products (spacecraft parts, railway trolley parts, medical products, etc.) that need to be imported from developed countries, due to the impact of supply-side interruption, the global supply chain is broken, and no suitable domestic substitutes can be found in the short term. In addition, some domestic enterprises have stopped production and some enterprises have an emergency transformation, it is even more impossible to produce parts with high-tech content and high technical standards. Therefore, the shutdown and delivery delay in developed countries in Europe and the United States have made it even worse for China's small and medium-sized enterprises that are difficult to recover.

3.2. It is difficult for small and medium-sized enterprises to resume work

It has been one and a half years since the outbreak began. Countries around the world have taken active measures to combat the epidemic. When the epidemic prevention and control is gradually improving, the government has emphasized the gradual resumption of work and production of enterprises, to gradually restore stability and normalcy to the social economy. When large enterprises gradually resume work, small and medium-sized enterprises have problems and obstacles to resume work. These problems mainly occur in the following aspects: First, most small and medium-sized enterprises have low profits. During the shutdown period, they not only have no profit income, but also suffer from expenditure pressure from various aspects, which puts pressure on their cash flow. The resumption of work may also increase costs and tighten the capital chain. Second, most small and medium-sized enterprises are part of the industrial chain, and they are all over the country in terms of sales or procurement. However, due to different epidemic control situations in different regions, some regions have started work, while others are still in the process of production suspension, so the whole industrial chain cannot operate [3]. Third, the resumption of work and production needs to be examined and approved at various levels. Some small and medium-sized enterprises are involved in more than 10 types of work or industries, but they cannot resume work and production due to operating conditions such as labor force [4]. In addition, despite the strict containment measures in China, a mutation of the virus strain has been detected in India, which spreads faster and has a higher mortality rate than the previous Novel Coronavirus strain. If there is "group infection" after the enterprise resumes work, the

enterprise will bear the cost of isolation and medical care, and the enterprise will face the risk of bankruptcy at a time when its capital chain is fragile.

4. SMALL AND MEDIUM-SIZED ENTERPRISES SURVIVAL TURNAROUND

Short-term and long-term pressure from all aspects make the survival of small and medium-sized enterprises face great difficulties at the same time there is a turning point for survival. In order to make the economy recover rapidly and all walks of life return to normal, we need to pay attention to several aspects: in terms of the impact of external factors, first, the vicious circle formed during the closure makes it difficult for most small and medium-sized enterprises to return to work, which has attracted the attention of the government. The government will support the development of small and medium-sized enterprises, appropriately relax supervision, and help them return to work. For example, for enterprises that actively support and help the society during the epidemic, the government provided tax relief policies, and banking institutions also relaxed loan conditions and reduced loan interest rates [5]. Second, re-examine the stability of the global supply chain system. As a large manufacturing country, China actively seeks domestic alternative supply chains, stops losses when the supply chain breaks, reduces the instability of the supply chain system, and makes up for its gap [8].

In terms of enterprises themselves, first, small and medium-sized enterprises should pay attention to the existing management and capital problems. Under the condition of sustainable development, actively cooperate with transformation and upgrading, adjust the company's development strategy, appropriately adopt layoff and salary reduction policies, introduce talents and labor force, improve the employment rate, and make the enterprise tide over the difficulties. Second, give full play to the role of Internet financial innovation. Industries that need an offline collaborative office, direct to consumers and physical existence are the most affected. However, this epidemic has spawned a new business model, spawned more enterprises to realize digital transformation, and replaced the current reality of some enterprises through the development of the Internet. Both developing and developed countries should pay attention to the digital transformation and the development of the Internet, enhance the flexibility of industrial cooperation, reduce risks and costs and stop losses in time.

5. CONCLUSION

Through the above introduction of the current development trend of COVID-19 and the huge impact on the economy, small and medium-sized enterprises passively bear the pressure from various aspects. At

present, the economy has recovered, and enterprises in various regions have been operating, but some small and medium-sized enterprises have not fully weathered the storm, and the Chinese and world economy has not fully recovered to the pre-epidemic state and development. On the macro level, as the epidemic has been brought under control by vaccines, morbidity and mortality rates have been reduced, and people's normal life has been less restricted, and they can almost return to the pre-epidemic situation. Therefore, some countries and regions of the business, transportation, catering, and other industries have resumed work, in the case of the economy does not continue to slump, a bit of recovery. Supply and demand chains are being reconnected between regions and countries, and the global economy is recovering rapidly. In the microeconomic aspect, some small and medium-sized enterprises have been unable to continue to operate during the suspension of business, and the company is heavily in debt. In order to tide over the difficulties, some companies have laid off employees, which has cut off the financial resources of these families. At present, the thesis only makes the corresponding analysis and puts forward the corresponding countermeasures in the aspect of macroeconomy but does not put forward the corresponding methods to face the microeconomic loss. Both macro-economy and micro-economy are important components of national and even global economic development. Therefore, in the future, while controlling the stable economic growth, the government should also introduce corresponding measures to help these individual economic units tide over difficulties.

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