

The Challenges and Development Opportunities for Chinese SMEs During the Pandemic

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ABSTRACT

Since the sudden outbreak of the coronavirus at the beginning of 2020, the pandemic has taken a toll on all sectors globally, posing a difficult challenge to all industries in China, especially the catering and tourism industries, which have witnessed significant drops in customer numbers and tourist arrivals, particularly affecting small and medium-sized enterprises (SMEs). Due to the fear of contracting the virus, people are reluctant to eat out and travel around. In addition to the declining number of customers, the rising labour costs, expired stockpiles and the extra costs of purchasing medical products for pandemic prevention have forced many small businesses to go bankrupt. Companies themselves can advertise their products by adopting new forms of selling, such as takeaways and live streaming. Besides, the government can cut enterprise taxes and provide low-cost or even free medical materials, helping businesses reduce losses and weather the pandemic.

Keywords: COVID-19 pandemic, SMEs, catering industry, tourism industry, business development

1. INTRODUCTION

Updated to today (23/04/2022), in domestic China, additional 21,423 people was infected with asymptomatic COVID-19, and there are 247,348 asymptomatic patients now. A total of 566,794 people have been diagnosed, and a total of 14,769 people have died [1]. There is no doubt that China is one of the countries with better control of the pandemic. With regard, it is not difficult to imagine the impact of the pandemic on the world, not only on human health, but also on the global economy. In March 2020, three months after the outbreak of the pandemic in China, Tu Tianyang from the Business School of East China University of Political Science and Law analysed and predicted the economic impact of the pandemic situation in China [2].

Besides, in April, Wu Tingting and Zhu Ang'ang held the same opinions [3]. Under the influence of COVID-19, all walks of life are facing huge challenges, especially the small and medium-sized enterprises that account for about 90% of the number of Chinese enterprises and contribute more than 60% of the country's GDP to China. Among the small and medium-sized enterprises, what bear the most significant brunt of the trauma are the tourism and catering industries. In March 2020, Ming

Qingzhong, a professor at the Tourism Culture Research Institute of Yunnan University of Finance and Economics, conducted a research and analysis on the impact of coronavirus on the tourism industry [4]. Qiu Shanhong and Xu Yupeng also studied on this issue [5]. They analysed the difficulties faced by the tourism and catering industry and raised several coping strategies that suitable for them. How to decrease the economic losses of tourism and catering industries due to the influence of coronavirus pandemic intrigued me to write this article. This paper will analyse and summarise the economic and financial data of the tourism and catering industry of the China Bureau of Statistics in the past five years [6], and provide the response strategies and summary for the tourism and catering industry facing the epidemic dilemma through micro and macroeconomic theories.

The COVID-19 pandemic has dealt a heavy blow to both the Chinese and the global economy, challenging almost all sectors in China, especially small and medium-sized enterprises with relatively weak strength, who are facing huge survival challenges [2]. SMEs are the engine of China's economic development and the backbone of economic modernisation construction. According to statistics from the State Ministry of Industry and Information Technology, by the end of 2019, the number of micro-, small and medium-sized enterprises (MSMEs)

in China had reached 30 million, and individual business households exceeded 70 million, contributing more than 50% of tax revenue, more than 60% of GDP, more than 70% of innovation and more than 80% of employment [3]. However, during the pandemic, whether in the early outbreak or the subsequent regional outbreaks, MSMEs are facing various difficulties, even on the verge of survival, especially those in the catering and tourism industries. To maintain social distancing, gatherings and weddings were cancelled, and a large number of restaurants and most tourist venues were closed, so the catering and tourism industries have become the first two sectors to bear the brunt of the pandemic. Therefore, the essay will focus on these two industries that have been most affected by COVID-19.

2. DEFINITION OF SMES

There are different criteria for classifying SMEs in different industries.

2.1 Catering Industry

In Notice on the Issuance of the Classification Standards for Small and Medium-sized Enterprises, two upper limits are set for MSMEs in the catering industry: the number of employees should be less than 300 and the operating revenue should be less than 100 million RMB. The number of employees is from 300 to 100 for medium enterprises, from 100 to 10 for small enterprises, and under 10 for micro-enterprises. Besides, the operating revenue of medium enterprises is between 100 million and 20 million RMB, small enterprises between 20 million and 1 million RMB, and micro-enterprises below 1 million RMB [7].

2.2 Tourism Industry

Although the tourism industry is one of the great contributors to China's development, no clear criteria for the classification of small and medium-sized tourism enterprises is found, whether from national industry statistics or academic research. So far, the widely-used concept of tourism SMEs by the official and the academic is quite vague, and the most accurate definition at present was created by Thomas et al. (1997), who stated that a small business employees fewer than 50 people (a figure combining the concept of European Commission's small and micro enterprises), and a medium business employees 50 to 250 people. Thomas' definition is extensively used in tourism research because it adopted comparative research methods and is flexible enough to specify the range of tourism enterprises rather than limiting it to less than 10 employees [8].

3. THE CHALLENGES FOR SMES DURING THE PANDEMIC

3.1. Catering Industry

3.1.1. Declining Revenue

Due to the rapid and wide spread of the virus, the government discouraged people from eating out, and customers were more cautious and reluctant to go to the restaurant, so the number of consumers plummeted in the catering industry. According to the National Bureau of Statistics, the country's small and medium-sized enterprises generated more than 4.672 trillion RMB in 2019 [6], 15.5% of which came from the peak season during the Chinese New Year. However, in 2022, the catering industry suffered severe losses during the Spring Festival. Compared with last year, 78% of the restaurants in China lost more than 100% of their business revenue, 9% lost more than 90%, 7% lost between 70% and 90%, and only 5% lost less than 70% .

3.1.2 Rising Costs

In addition to the declining revenue, the catering industry also suffered rising costs. For example, the loss of expired inventory had led to higher costs indirectly. During holidays, the catering companies generally hoard three to five times the usual amount of stock. However, as people were reluctant to go out due to the pandemic, the number of customers plunged, so the extra ingredients were left to expire. Many SMEs had to suffer the loss, which restaurants that focused on fresh ingredients and products particularly.

Another huge cost was the cost of medical supplies for pandemic prevention and control. Since the outbreak of the pandemic, many catering companies have mobilised resources to purchase a large number of medical products for pandemic prevention and control, including face masks, thermometers and disinfection supplies, driving up the operating costs of SMEs.

Moreover, the rent and labour costs cannot be ignored. Although most catering outlets were closed during the pandemic, they still had to pay for the labour costs, rent, utility bills and house depreciation charges [9]. When all the fixed expenses remained the same and the operation hours dropped due to the pandemic prevention control, the unit price, for example, the rent and labour costs, has witnessed a "magical" surge.

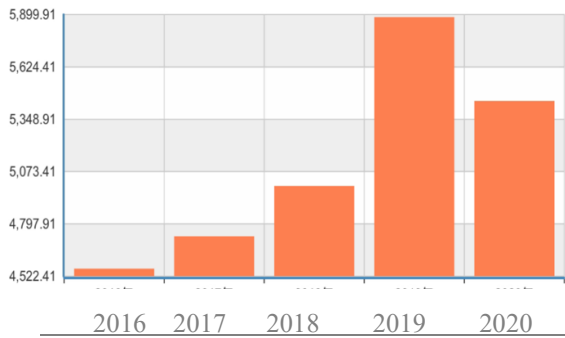


Figure 1 Meal income in the catering industry (per 100 million RMB)

Table 1. Number of incorporated companies in the catering industry

Year-end employment in the catering industry

Turnover in the catering industry

Meal income in the catering industry

Year	2016	2017	2018	2019	2020
Number of legal Entities in catering industry (PCS)	26359	25884	26258	29918	32901
Number of Employed persons in catering industry at year-end	2211112	2232258	2342000	2527930	2576586
Turnover of catering industry (100 million yuan)	5127.07	5312.78	5622.9	6557.38	6037.26
Food expense income of catering industry (100 million yuan)	4562.14	4732.1	4997.7	5886.58	5445.73

The data summary from the National Bureau of Statistics [6] demonstrates that the number of businesses and the year-end employment in the catering industry were on the rise from 2016 to 2020, so were the turnover and meal income from 2016 to 2019, but the latter two declined in 2020 due to the pandemic.

3.2 Tourism Industry

Since the General Office of the Ministry of Culture and Tourism issued Urgent notice on the Suspension of Tourism Business Operations for the Prevention and Control of COVID-19 on 26 January 2020 [10], all travel agencies and tourism enterprises in China stopped tourism operations and product-selling. It marked a turning point for the Chinese tourism industry when the continuous development in recent years was smashed by the sudden close-down. According to the China Tourism Academy (Data Center of the Ministry of Culture and Tourism), In 2020, the number of domestic tourists was 2.88 billion, down 52.1% year on year. And in 2020, the annual domestic tourism revenue was 2.2 trillion yuan, down 61.1% year on year [11], with more than 20 companies going bankrupt. The declining number of tourists is contributed to the following two reasons.

3.2.1 Reduced Unnecessary Expenditure

The pandemic has led to economic recessions in all sectors, making it more difficult to earn money, so it is reasonable for most households to try to increase income and cut back on expenditure, especially the high and non-essential travel expenses. In addition to the economic blow, COVID-19 has cast a shadow over people’s minds. Previously, the rapid growth in living standards, economic strength and disposable income had led to a habit of overspending. However, as the virus is still raging and people are under long-time lockdown, some middle and lower classes have no income at all or are even heavily in debt. Besides, the leaping commodity prices during the pandemic have put more burden on people. According to incomplete statistics, when asked about people’s travelling willingness after the pandemic, 58% chose not to travel and stay cautious, 28% chose to go on a trip, 9% chose to stay at home, and 5% did not have a clear preference. Overall speaking, the majority of people would still stay vigilant in travelling after the pandemic [12].

3.2.2 Reduced Willingness to Travel

As the pandemic has dragged on for three years, its negative effects on people will also be long-term, which greatly reduce people’s willingness to travel, mainly for three reasons.

First of all, the safety issue. Although the virus has been effectively contained in China, most people choose to travel around by car and avoid long-distance trips due to the concern about travel safety against the pandemic.

Moreover, there might be some unexpected outbreaks. China has achieved good results in the fight against COVID-19, but the fact that the pandemic is recurring in local areas will inevitably affect people’s travel plans. For example, they will be forced to cancel or postpone their trips at any time if regional outbreaks occur, which greatly discourages people from travelling around.

In addition, it is now inconvenient for people to travel around. To comply with local pandemic prevention policies, people are often required to have a negative test result of COVID-19 within 48 hours for cross-city and cross-province trips; they are also required to have their green health codes checked when travelling to scenic spots, which frustrates many travellers, especially the elderly and children.

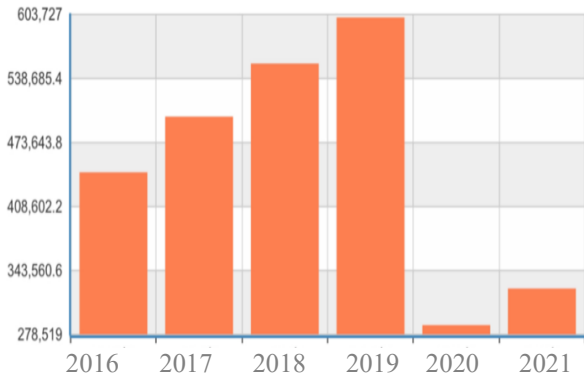


Figure 2 Domestic travellers (per 10 thousand visits)

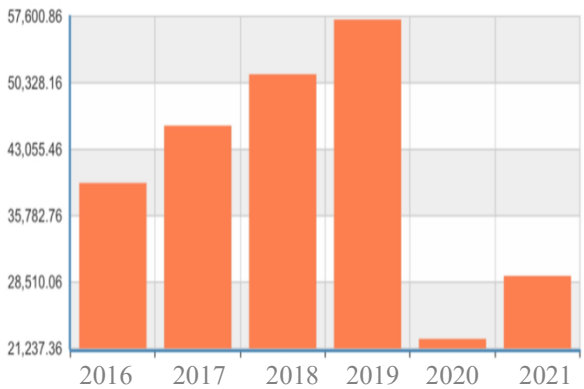


Figure 3 Total domestic travel expenditure (per 100 million RMB)

Table 2. Domestic travellers (per 10 thousand visits)

Total domestic travel expenditure (per 100 million RMB)

Year	2017	2018	2019	2020	2021
Domestic tourists (ten thousand)	500100	553900	600600	287900	325000
Total Domestic tourism Expenditure (100 million yuan)	45660.77	51278.29	57250.92	22286.3	29191

According to the data summary of the National Bureau of Statistics [6], between 2017 and 2019, the number of domestic tourists and total domestic travel expenditure were on the rise. However, from 2019 to 2020, the former decreased from 6.006 billion to 2.879 billion, and the latter experienced a precipitous fall from 5.725 trillion RMB to 2.229 trillion RMB. It is obvious that the pandemic has thwarted people from travelling and caused the tourism industry to shrink. Between 2020 and 2021, when the pandemic was gradually contained, the number of domestic tourists and total domestic travel expenditure saw a modest increase.

4. ANALYSIS OF THE SMES' DEVELOPMENT DURING THE PANDEMIC

The pandemic has brought a non-negligible impact on

all sectors, so the government is mobilising macro regulation and control to improve the economy. Besides, companies themselves also need to work hard to increase their income and survive after the pandemic.

4.1 Governmental Macro Regulation and Control

4.1.1 Catering Industry

The government provided restaurants with low-cost or even free medical products for pandemic prevention, for example, disinfectants, to help them bring back customers and reduce expenditure on epidemic prevention. Besides, the government cut taxes and restaurant housing rents, lowering the fixed costs in the catering industry [13].

4.1.2 Tourism Industry

The government has launched tourism reservation systems on software such as "Bendibao (local treasure)", so visitors can plan in advance and avoid gathering, which ensures the number of visits, stabilises revenue and alleviates people's concerns about the crowded tourist attractions [4].

4.1.3 Consumers

The government issued consumption vouchers on Alipay (a large mobile payment platform in China), which can only be used in brick-and-mortar shops, so as to support people to go shopping offline and help stores increase income. Besides, the government encouraged people to stay put during the Chinese New Year and other holidays without leaving the city or province and granted a "Celebrate in Place Subsidy" accordingly [4]. These measures helped to contain the virus, stabilise the normal business activities of the companies and contribute a lot to the enterprise revenue.

4.2 Business Attempts

4.2.1 Catering Industry

When COVID-19 first broke out, the catering enterprises closed down in response to pandemic prevention and control, and even takeaways were restricted, during which the only thing SMEs could do was to cut down on rent and labour costs. Now with the virus largely under control, the catering industry has rebounded, and the takeaway business resumed, so it is even more important for SMEs to strengthen their connections with customers.

(1) The catering enterprises should take the initiative and thoroughly disinfect their restaurants for pandemic

prevention and control so that customers will feel safe and comfortable eating in.

(2) The catering enterprises should accelerate the multi-dimensional catering form. The traditional trendy products are mostly based on the dimension of finished products. Instead, companies should intensify their brand awareness by advertising before and after the consumer's dining experience.

(3) The catering enterprises should innovate by providing various forms of food, including ready-to-eat products, half-prepared food and freshly-made meal, to suit the needs of different scenarios such as take-out, takeaway, dine-in, and home dining, thus building a complex selling network with different channels.

4.2.2 Tourism Industry

During the cold winter of the pandemic, what should SMEs do to mitigate the losses and increase customer stickiness in order to quickly rebound after the crisis? There are three ways for tourism businesses to prevent cash shortages.

(1) Persuade travellers to choose deferrals rather than refunds. Try to offer customers other services instead of refunds, for example, launching life services. Company transformation is imminent because it is better to add a new line of business than to sit and wait, but the basis is to keep the original customers [14].

(2) Initiate travel product pre-sale and build on online travel services [14]. Since people are quite familiar with the Internet in the digital era, they can learn to cook, study and relax online with the help of self-media, which brought many comfort and joy during the lockdown and self-isolation. Currently, to pre-plan and pre-sell travel products and spice up online services will yield good results because many travel enthusiasts are still willing to be involved, especially when the Internet is the only source of pleasure.

(3) Start a good side business to ensure the income because keeping the cash flowing requires a sustainable source of revenue. As COVID-19 ravages the world, only relying on package tours and flexible tours to make money is not realistic, so the SMEs should make full use of their resources, focusing on domestic and international fruit and wine distribution. In this way, consumers can enjoy exotic food and lifestyle at home, and companies can generate stable profits.

5. CONCLUSION

The COVID-19 pandemic has brought a devastating impact on MSMEs in China, but good things can come out of the crisis. Companies should insist on "walking on two legs" by relying on the government's supportive policies and carrying out active self-saving attempts [15].

According to a survey, more than 70% of SMEs are taking the initiative to take action to continue production and save themselves while keeping in line with pandemic prevention and control. Entrepreneurs should have the strategic determination and a clear direction, stay calm in the face of every major event, and make a wise judgement on the severity of the crisis so as to decide on suitable coping strategies. The government should also provide help to enterprises in all respects, including fiscal policies for financial support and investment attraction, special funding from financial institutions, more friendly tax policies and subsidies, and related industrial, labour and employment policies [16]. In this way, the spring is not far away for small and medium-sized enterprises, and the late spring will breed countless hopes. For example, the SMEs in the catering industry are bound to innovate after the pandemic by launching takeaway to increase sales volume and using live streaming to advertise their products and attract customers. The tourism companies can mitigate the losses of the pandemic by adding new forms of ticket-selling such as pre-sale and reservations. Innovation originates in a company's firm conviction, great potential, and timely adjustments; it also originates in Chinese entrepreneurs' commitment, perseverance, creativity, fearlessness and courage, so the SMEs in China will and must always stand out and weather the pandemic.

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