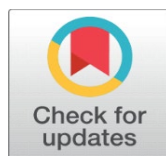


THE EVALUATION OF CHINESE SMES DEVELOPMENT FROM 1978 TO 2022

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Received 17 May 2022
Accepted 28 June 2022
Published 12 July 2022

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DOI
[10.29121/granthaalayah.v10.i6.2022.4542](https://doi.org/10.29121/granthaalayah.v10.i6.2022.4542)

Funding: This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

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ABSTRACT

With the development of the Chinese economy, SMEs have grown rapidly since 1978. However, SMEs in China suffered from the world financial and economic crisis in 2008. Recently, Chinese SMEs have been badly hit by Covid-19 pandemic. The adverse effects of this pandemic on SMEs in China are still on-going. This research identifies four stages of Chinese SMEs development in different economic environment.

Keywords: China, Chinese SMEs, Process of Development, Economic Stages

1. INTRODUCTION

The structure and dynamic of Chinese enterprises have significantly changed during the entire economic reform since 1978, especially the notable growth of SMEs. Chinese SMEs have played a vital part in China's transformation from a poor socialist country to a great world power. According to different stages of the Chinese economy, the development process of Chinese SMEs is divided into four different phases in the following.

2. THE FIRST PHASE OF CHINESE SMES DEVELOPMENT (1978-2000)

The first stage of SMEs development in China from 1978 to 2000 was recognized by the encouragement of SMEs growth and the enterprise reform. A great opportunity for the development of SMEs is provided by the new economic environment from communist planning to market distribution. For example, due to the re-established family farming system and the improved agricultural productivity, an increasing number of SMEs set up in rural regions [Wang and Yao \(2004\)](#) Moreover, the decision-making power was delivered into SMEs themselves and resources were gradually released to the market. Therefore, it enabled access to more materials based on the production situation and marketing demand of SMEs. This promoted the growth of urban SMEs [Siu \(2005\)](#)

In addition, the enterprise reform had been launched by the central government since the mid-1980s, which brought about the rapid process of enterprises' privatization. The number of private enterprises (PEs), self-employed individuals and other non-public firms has increased dramatically, accounting for over 90% of total SMEs in 2000 [Chen \(2006\)](#) Furthermore, the fast development of private SMEs also played a crucial part in receiving unemployment from state-owned enterprises (SOEs). For instance, almost 19 million employees laid-off from SOEs were rehired by private SMEs from 1998 to 2000 [China Statistical Yearbook \(2009\)](#)

Take a specific example of SMEs from the manufacturing industry, the number of SMEs showed dramatic growth from 344,000 in 1978 to 7,963,000 in 1996 [Tambunan \(2009\)](#) Table 1 below shows that the employment and output value of SMEs had reached more than fifty percent in the manufacturing industry since 1985 until 1995 [Wang and Yao \(2002\)](#)

Table 1

Table 1 The Statistics of SMEs in Manufacturing Industry

| Year | The Quantity of SMEs (%) | The Output Value of SMEs (%) | The Employment of SMEs (%) |
|------|--------------------------|------------------------------|----------------------------|
| 1980 | 98.93% | 56.82% | N/A |
| 1985 | 99.85% | 57.70% | 76.51% |
| 1995 | 99.96% | 62.42% | 73.59% |

Source [Wang and Yao \(2002\)](#)

Additionally, fourteen coastal cities were opened to attract more foreign investments in 1984 [Anderson et al. \(2003\)](#) The great number of FDI into China was warmly welcomed by the Chinese government. In addition, the enterprises of FDI themselves were SMEs. More significantly, these FDI offered monetary support and entailed spillovers to local SMEs [Li \(2010\)](#)

Since Chinese government loosened regulatory restrictions and implemented enterprise reform in 1978, the development of Chinese SMEs has been remarkably stimulated [Deakins and Freel \(2012\)](#)

3. THE SECOND PHASE OF CHINESE SMES DEVELOPMENT (2001-2007)

The second phase of SMEs development in China from 2001 to 2007 was recognized by the stimulation of the internationalization process of Chinese SMEs [Cardoza and Fornes \(2012\)](#)

Historically, the share of SMEs in global business was much smaller than MNCs, representing approximately 30% of foreign trade in different countries and around 10% of global investment [Hall \(2007\)](#) From this point of view, Chinese SMEs reached a span-new stage, where SMEs occupied an equally significant place globally as they had domestically. Particularly, Chinese economy has further transited into the market-oriented economy and more closely integrated with the global economy after joining World Trade Organization (WTO) in 2001. For example, the export value grew from 20.601 billion US dollars in 1978 to 761.999 billion US dollars in 2005 with an average annual growth rate of 27.46%. And the export value of Chinese SMEs reached 518.159 billion US dollars in 2005, accounting for 67.9% of a totality [Zhao \(2010\)](#) This export value provided by Chinese SMEs is equivalent to around double of the total GDP of Greece and over one quarter of the total GDP of France in 2005 [Hall \(2007\)](#) Furthermore, SMEs in China have also contributed to approximately 68% of total export volumes on average. The U.S. Department of Commerce estimated that American SMEs contributed to around 30% of overall export volumes [Hall \(2003\)](#) Viewed from this perspective, Chinese SMEs are over twice as internationalized as American SMEs [Hall \(2007\)](#). Moreover, the export share of Chinese SMEs is much higher than that of other economies in OECD and Asia-Pacific Economic Cooperation (APEC) as well [Meng and Wang \(2007\)](#)

There have been other far-reaching influences on SME growth after joining WTO. On one hand, Chinese SMEs have been under stress due to the new adjustments and restructuring of trading and labour policies to meet international requirements [Li and Rowley \(2008\)](#) On the other side of it, the fierce marketing competition has been from both national and international competitors because the barriers for entry into the market are removed [Li \(2007\)](#) Additionally, the marketing competition has not only been dependent on price and quality, but also based on the company's capability of innovation and specialization.

From 2001 to 2007, more and more SMEs actively exploited the international market, resulting in an increasingly important role and new challenges within overseas markets.

4. THE THIRD PHASE OF CHINESE SMES DEVELOPMENT (2008-2019)

The third development stage of Chinese SMEs is from 2008 until 2019. SMEs in China have severely suffered from the 2008 global financial crisis.

The majority of SMEs in China concentrate on low-technology and low-end products. However, Chinese SMEs have confronted a lot of challenges where they cannot get competitive advantages and profits purely through an export-oriented business as before [Li and Rowley \(2008\)](#) Affected by the 2008 global financial and economic crisis, a great number of SMEs in China downsized their businesses. Furthermore, many of them closed, leading to massive job losses. For example, more than 10 million migrant workers were unemployed in 2008; this increased to 50 million job losses in 2009. Most layoffs came from private SMEs in the manufacturing fields [Shen and D'Netto \(2012\)](#) Ever since the investment package of four trillion RMB implemented by the central government in November of 2008, a transition of the workforce moved from private SMEs in the manufacturing industries to state-owned enterprises in the infrastructure sectors. To some extent, the job losses were offset by workforce flows due to this economic stimulus program. However, because of the monopolistic nature, most state-owned

enterprises are large firms. Consequently, the expansion of state-owned enterprises, which have been less affected by financial crisis and economic downturn, will make re-employment more difficult for Chinese SMEs [Shi \(2009\)](#)

As the export value of Chinese SMEs has represented around 68% of national values on average since 2001, purchase management index and export orders index describe the export business performance of SMEs in China [Meng and Wang \(2007\)](#). In general, the higher purchase management index and export order index, the better business performance of international trade and commerce.

[Table 2](#) below illustrates the situation of purchase management index and the index of export orders from December of 2013 to January of 2015. In 2014, although purchase management index exceeded 50%, the growth momentum was still insufficient. For instance, purchase management index declined for four months from 51.1% in September 2014 to 50.1% in December 2014. Even worse, purchase management index decreased to 49.8% in January 2015. This was the lowest rate within the last fourteen months, implying the depressed business situation. In addition, the export orders also confronted downturns with sluggish fluctuation between 50.8% and 48.2% during the past fourteen months. This indicates the export-oriented companies faced severe difficulties in their business operation, especially for Chinese SMEs [The Ministry of Commerce of China \(2015\)](#)

Table 2

| Table 2 The Purchase Management Index and Export Orders Index from 2013 to 2015 | | |
|--|--------------------------------------|--------------------------------|
| Time | Purchase Management Index (%) | Export Orders Index (%) |
| 12/2013 | 51 | 49.8 |
| 01/2014 | 50.5 | 49.3 |
| 02/2014 | 50.2 | 48.2 |
| 03/2014 | 50.3 | 50.1 |
| 04/2014 | 50.4 | 49.1 |
| 05/2014 | 50.8 | 49.3 |
| 06/2014 | 51.0 | 50.3 |
| 07/2014 | 51.7 | 50.8 |
| 08/2014 | 51.1 | 50.0 |
| 09/2014 | 51.1 | 50.2 |
| 10/2014 | 50.8 | 49.9 |
| 11/2014 | 50.3 | 48.4 |
| 12/2014 | 50.1 | 49.1 |
| 01/2015 | 49.8 | 48.9 |

Source [The Ministry of Commerce of China \(2015\)](#)

Moreover, the minimum salary standard of employees has increased dramatically in China, placing a serious financial burden on Chinese SMEs since 2009. Take Qingdao City as example, the minimum monthly salary standard rose from 760 RMB (around 121 US dollars) in 2009 to 2480 RMB (around 394 US dollars) in 2019, increasing by more than three times over a span of ten years. For another example, the average salary of primary workers in Shanghai City is 3119 RMB (around 508 US dollars) monthly, which is around six times higher than that of most countries in Southeast Asia and South Asia. Therefore, China cannot maintain its advantage of cheap labours anymore. In the face of the growing Chinese labour costs and the intensified competition from other cheap labour countries, Chinese SMEs especially located in Yangzi Delta and Pearl River Delta, have adjusted their business by moving their manufacturing bases to low-cost regions or sourcing

cheaper raw materials from low-cost areas, including Southeast Asia, South Asia, and Africa. The increasingly high labour cost has become one of the biggest constraints for the further development of SMEs in China [Sohu News \(2019\)](#)

5. THE FOURTH PHASE OF CHINESE SMES DEVELOPMENT (2020-2022)

As we all know, the covid-19 epidemic is sweeping across the globe in 2020. Under this epidemic, SMEs have been severely affected in many industries. The global epidemic gave a blow to the export business, most SMEs reduce their export transactions and downsize their businesses.

6. CONCLUSION

The business performance of Chinese SMEs is mainly dependent on the economic environment. Furthermore, the government policy has been considered as one of the key factors influencing business performance of Chinese SMEs. In addition, with the deeper development of economic globalization, China inevitably weathered the world economic depression maelstrom. The slow GDP growth indicates the current low economic effectiveness in China. There can be no doubt that Chinese SMEs have had to navigate a tough economic terrain.

CONFLICT OF INTERESTS

None.

ACKNOWLEDGMENTS

None.

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