

Transnational Trade Risks of Chinese Small and Medium-Sized Enterprises and Solutions After the Covid-19

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Abstract. Within the context of economic globalization, Chinese enterprises affected by the COVID-19 face a number of difficulties in cross-border trade. Small and medium-sized enterprises (SMEs) play a substantial role in china's economy. These enterprises account for more than 60% of the total GDP, around 50% of the tax revenue generated, create over 79% of employment opportunities, and contribute to approximately 68% of the whole export volume. With the onset of the epidemic, the viability and progress of China's small and medium-sized firms face a significant risk, so causing a further threat to the overall economic advancement of China. Based on previous studies on Chinese SMEs' foreign trade, this paper narrows the time frame of the study to the period between the epidemic and the post-epidemic period, analyses in detail the cross-border trade risks faced by Chinese SMEs from the perspectives of supply and demand, business operations, product price competitiveness and innovation level, and provides relevant measures to address these risks, such as strengthening cooperation among allied countries, enhancing the government's supportive role, utilizing financial instruments to hedge trade risks, and enhancing the innovation capacity of enterprises. By analyzing the foreign trade risks faced by Chinese SMEs in the post epidemic context, SMEs can make more improvements in production, operation, management and innovation. Therefore, these small and medium-sized enterprises can create more value and achieve sustainable development.

Keywords: Post-epidemic background, Middle and small-sized enterprises, foreign trade.

1. Introduction

1.1. Background

A sizeable proportion of small and medium-sized firms in China have been seriously affected, including trade with foreign countries, by the epidemic since 2019. There has been a significant decrease of over 70% in business income for SMEs in China. Moreover, over 30% of these enterprises are currently facing financial insufficiency, unable to sustain their operations for a period of one month. Therefore, the preservation and advancement of SMEs in the post-epidemic era, as well as the resolution of dangers faced by SMEs in cross-border commerce, are of paramount importance for China's economic progress and social stability.

1.2. Related research

The contagion of COVID-19 in recent years has impeded the economic and social development of various countries. The ability to ensure transportation conditions for worldwide trade was hindered due to governmental measures aimed at preventing and controlling the pandemic, which directly impacted the operations of global transportation businesses. This problem severely hampers SMEs' transportation efforts both internally and externally, and the closure of a particular business within the supply chain network can potentially result in a crisis for both its upstream and downstream enterprises [1].

SMEs have a comparatively uniform approach to financing compared to large businesses. Taking the data of 204 surveyed enterprises in Jiangsu as an example, the preferred sources of financing for most enterprises are self-financing and bank loans. SME financing risks are mainly categorized into internal and external risks. Internal risks are mainly due to the lack of sound development strategies and internal management strategies of SMEs; external risks are mainly due to the inferior position of

SMEs in the credit system of commercial banks, which makes it very difficult for SMEs to obtain funds from commercial banks, and therefore the possibility of further trade with foreign countries is reduced [2]. Reducing bank loan interest rates and allowing deferred repayment of principal and interest on loans are effective ways to mitigate the financing risks of Chinese SMEs. In addition, government support is crucial. The government can use the form of equity, credit, etc., to provide sufficient funds for SMEs. At the same time, it can strengthen the management of SMEs and increase the policy support for SMEs' international trade [3].

Fluctuations in the currency rate have a significant impact on the comparative prices of imported and exported commodities, thereby influencing China's export commerce with other nations. Research data shows that for every 1% appreciation of the RMB relative to the US dollar, China's export trade will decrease by 1.532%. In addition to the trade between Chinese enterprises and the United States, many transactions in international trade use the U.S. dollar as the settlement currency. Assume that China's SMEs import equipment from Europe and settle in US dollars, if the euro appreciates against the US dollar, it will result in huge losses or even bankruptcy for the SMEs. Such a situation happens in every trade market around the world [4]. The current measures to control exchange rate risk in cross-border trade of SMEs in China mainly include the cash management method, the mark-up and mark-down preservation method, and the financial derivatives method. Cash management method refers to increase the purchase of inventory and real estate to reduce the amount of cash holdings, as far as possible to make accounts receivable into cash. The markup and markdown method refers to the enterprise to add a certain price when exporting, and to reduce a certain price when importing to address the potential negative impact of exchange rate changes. Financial derivatives method includes forward foreign exchange transactions, foreign exchange swaps and foreign exchange futures, options and other transactions to control the enterprise's foreign exchange risk [5].

The trend of global economic integration has gradually narrowed the distance between different economic systems, and the volume and capital of cross-border trade among countries have increased significantly. Although China's SMEs pay more attention to overseas markets, and actively take different ways to develop foreign markets and promote their international trade business, they also face many business risks: including the less connection with external markets, weak technological innovation, and difficulty in making scientific cross-border trade planning [6]. The strategies that can effectively solve the business risks of SMEs can be divided into the following aspects: (1) Strengthen legal supervision. (2) Increase the reserve of high-quality talents, including the recruitment and training of more legal, Internet, foreign language and financial professionals; (3) Clarify the guiding role of the government. For example, when the problem of anti-dumping occurs, the relevant government departments should provide appropriate support for SMEs to ensure that these enterprises can successfully tide over the difficulties [7].

Chinese SMEs are also facing serious international trade credit risks. Chinese exporters who provide trade credit to overseas importers will have difficulty in repaying their bank credit debts if they find that they are not receiving payments. The international trade credit risk of Chinese SMEs can be partially explained by an over-reliance on traditional business practices that work in domestic trade but not in international trade. Chinese business operators may view trade credit compliance as an ethical criterion and a means of maintaining trade relations, without paying much attention to the signing of contracts with overseas partners [8]. Based on the fact that Chinese enterprises are deeply influenced by traditional culture, managers of Chinese SMEs should increase the risk assessment of foreign importers and improve the awareness of corporate responsibility, establish a formal, consistent and open organizational CRM policy, so as to minimize the influence of relationships and Guanxi on credit decisions. In addition, improving the function of the finance department and making better credit decisions are also important for SMEs to overcome international trade credit risk [9].

As an example, the Chinese company Guangzhou Guan Xiner Trading Co., Ltd. specializes in the production of a variety of cup products and cooperates with international brands such as Disney. However, the company is currently experiencing many challenges in its trade with foreign countries.

First, since its establishment, Guan xiner has been using low price as its competitive advantage, and its technology content is not high, so the company's exports are always subject to trade friction, and anti-dumping measures against the company's exports are increasing overseas.

In addition, the company faces the difficulties of high financing threshold and complicated procedures. Regardless of the size of the amount and the risk of the financing product, it needs to be examined by several departments such as settlement and risk management [10].

1.3. Objective

As mentioned above, the current situation of international trade of Chinese SMEs can be divided in four aspects: financing risk, exchange rate risk, business risk and international trade credit risk. At present, academics focus on the study of the international trade of large enterprises, especially listed enterprises, and pay less attention to the current situation of cross-border trade and operation of small and medium-sized enterprises. However, SMEs account for the largest number of enterprises in China, so it is necessary to analyze the problems arising from cross-border trade of SMEs and propose corresponding solutions. Since this paper sets the research background in the period during and after the COVID-19, the problem analysis and countermeasures are more targeted compared to the existing literature, and are more in line with the current actual situation of cross-border trade of Chinese SMEs.

2. Problems analysis

Small and medium-sized companies hold significant importance in facilitating the transformation of China's economic model and economic restructuring. However, SMEs are less risk-tolerant and therefore more vulnerable to the pandemic. The outbreak of the epidemic caused a -6.8 percent drop in economic growth in the first quarter of 2020, the highest single-quarter drop since China's reform and opening up. The downward pressure on the economy has made it more difficult for SMEs to operate and has hindered cross-border trade for a large number of SMEs [11].

2.1. Lower Demand and Trade Decrease

As a result of the epidemic, there has been a massive reduction in overall global economic activity and a drop in market demand, which has worsened foreign trade conditions for Chinese SMEs. The lack of demand has made it difficult for companies to obtain orders or even face delays or cancellations of orders. Not only that, the restriction of sea and air transport between countries after COVID-19 has increased logistical risks and will also increase the transport costs for Chinese SMEs. In addition, SMEs usually fail to develop scientific trade planning, and therefore may not know their foreign customers well enough, which results in a higher rate of bad debt in accounts receivable, and ultimately leads to serious financial risks [12].

2.2. Operating Problems

According to a periodical report on the influence of the COVID-19 on 2,040 SMEs in China, 87.9% of SMEs state that the epidemic has had a negative impact on their business operations, with the largest proportion of SMEs experiencing a 30%-50% decline in operating revenue, 34.4% of SMEs experienced a drop in the selling price of their products and services during the epidemic, and nearly 30% of the SMEs surveyed believe that the duration of their cash flows could not last three months. Nearly one-fifth of the Chinese SME survey sample planned to or had already terminated operations after the epidemic. Based on the data presented in Fig.1, it can be observed that the ratio of loan applications to the total number of SMEs in China ranges from a high of 69.88 percent to a low of 53.09 percent, suggesting that loan financing is the main form of financing for SMEs in China. However, it can be seen from the Fig.2 that the percentage of bad loans among Chinese SMEs is greater than the percentage of bad loans among all enterprises. Problems such as a single financing method and difficulties in obtaining financial support have become main reasons for the termination of operations of Chinese SMEs. In order to compensate for the financial difficulty of SMEs, the

government provides cost subsidies to SMEs, including reducing or postponing the payment of business taxes and providing cost subsidies for personnel expenses, such as wages and social security. However, SMEs with lower assets and revenues in China receive the least proportion of government support. This is mainly caused by the fact that these enterprises are not familiar with the local support policies and the complicated application procedures and the long application time for policy support [13].

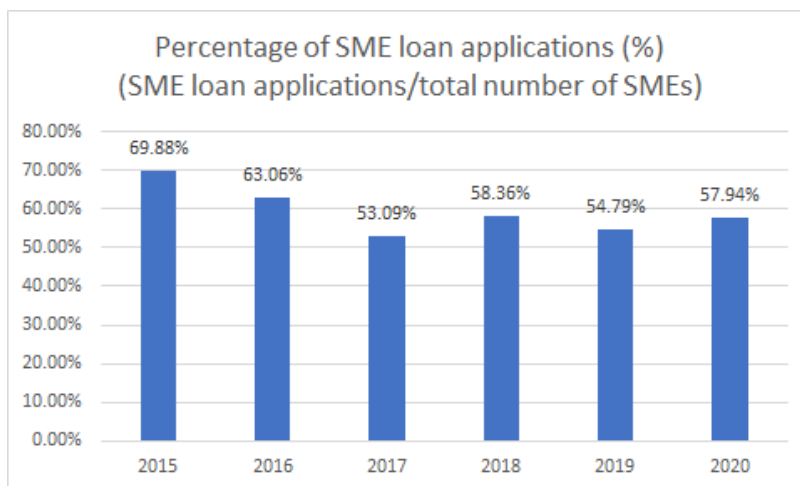


Figure 1. Percentage of SME loan applications [14].

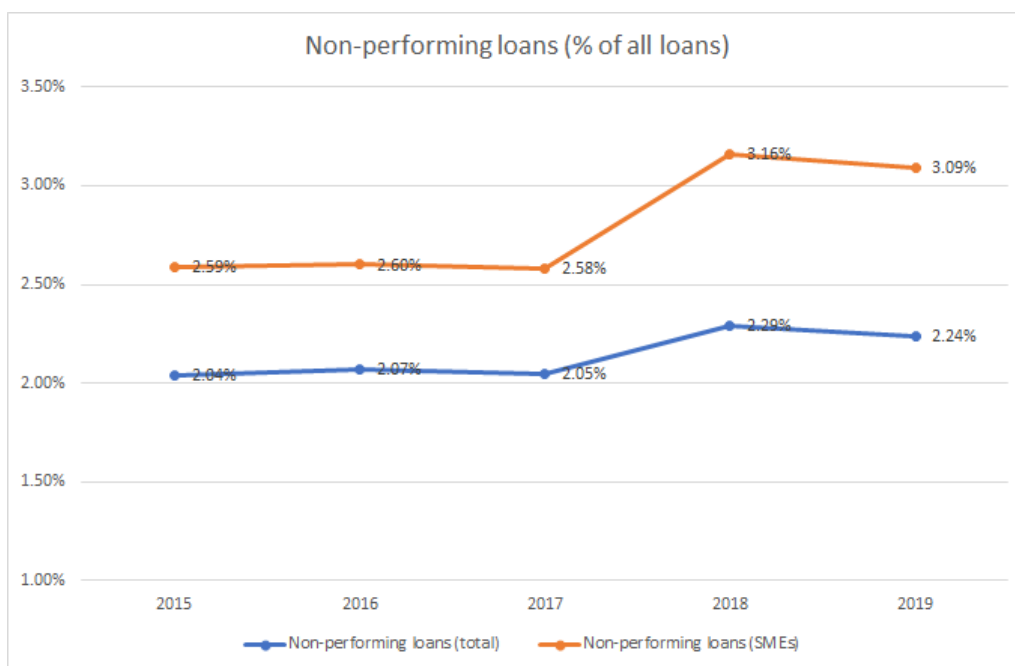


Figure 2. Non-performing loans [14].

2.3. The Problem of Price Competitiveness Caused by Usd Interest Rate Hike

After the outbreak of the epidemic, the global supply chain was disrupted, prices rose and inflationary pressure increased. Therefore, the Federal Reserve tightened its monetary policy by frequently raising the federal funds rate to suppress consumption and thus control inflation [15]. The US dollar interest rate hike leads to the appreciation of the US dollar and the depreciation of the RMB, which gives China's export commodities a more advantageous price in the international market. However, when the currencies of other developing countries depreciate more than the RMB, the price competitiveness of China's commodities will be weakened. In addition to this, exchange rate fluctuations on a global scale can lead to losses for many small and medium-sized enterprises. For

example, many orders from foreign companies have agreed on commodity prices and logistics prices months or even a year ago, and the US dollar's interest rate hike has led to serious fluctuations in the exchange rates of various countries' currencies, which has led to unwarranted price pressures, delayed payments, and even abandonment of orders, which has resulted in a large number of Chinese SMEs not being able to receive their accounts receivable and not being able to pay off their debts.

2.4. Industry at Low and Medium Levels and Lacks Bargaining Power

In the current background of prevailing trade protectionism, most of China's SMEs still have not realized the transformation and upgrading of industries, and rely heavily on labor-intensive industries, which are generally in small scale, and the problems brought by this characteristic have also been magnified in the current epidemic. The bargaining power of SMEs is not high, and it is difficult to avoid the exchange rate risk by raising the price or changing the currency of denomination to achieve the purpose of transferring financial risks [16].

To sum up, under the shock of the epidemic, the economic development is in the doldrums, which not only affects the development process of China's SMEs, but also impacts the world economy. The epidemic prevention and control of the world's imports and exports directly affect trades around the world. In the world import and export trade, China occupies a crucial position. Therefore, in the post epidemic era, it is urgent to solve the risks of the SMEs' transnational trade.

3. Solution

3.1. Strengthen Cooperation Among Countries

With the advancement of the Belt and Road Initiative, trade between China and ASEAN countries continues to rise, and these trade activities have emerged as a potent new engine for the growth of China's international trade. The development trend of emerging international markets allows foreign trade-oriented enterprises to have more market choices. Therefore, Chinese SMEs can expand the trade market with ASEAN countries, make full use of national policy support to develop their own enterprises, strengthen trade with ASEAN countries, and carry out more communication and cooperation in different fields to achieve win-win development [12].

3.2. Government Support

Based on China's international trade development situation, the international trade development of China's SMEs cannot be separated from the support of financial institutions. However, due to the constraints of SMEs' own size, capital and credit, the interest rates on loans are high. Although financial institutions are developing a reasonable financial system for SMEs, these institutions are still strict in the approval work of SMEs related to international trade finance, which results in SMEs not being able to obtain enough financial support. Therefore, the government should adopt diversified measures to solve the financing difficulties of Chinese SMEs, including the implementation of "tax relief" and "cancellation of administrative fees" measures, and accelerating the progress of export tax rebates. These measures can effectively reduce the tax burden of SMEs in foreign trade, reduce the cost of production and export, and improve the competitiveness of enterprises [17]; In addition, the government should also improve the laws and regulations for SMEs to apply for bank loans, and safeguard the legitimate rights of SMEs in international trade, so as to minimize the crisis of confidence between banks and SMEs [18].

3.3. Use Financial Instruments to Hedge Risks

Many of the services currently provided by Chinese financial institutions are not compatible with the needs of SMEs. Domestic futures companies can provide guidance services to SMEs. In the market economy, SMEs are often in a weak position, lack the right of speech, and their profitability cannot be guaranteed, so they need to lock in the procurement cost in advance. Futures companies

can provide one-on-one services and programs to SMEs through the data analysis of professional researchers and the business staff's knowledge of the spot market [19].

3.4. Enhance Scientific and Technological Capacity

In the post-pandemic context, China's SMEs are at an important point of industrial transformation and upgrading. As export competition for foreign trade commodities increases, SMEs need to introduce new technologies and enhance their capacity for technological innovation. For example, to strengthen the cooperation between SMEs and university research institutes, so that the scientific research results of the research institutes can be applied in SMEs. At the same time, the entrepreneurial environment of SMEs needs to be perfected, and the government can increase the support for SMEs' innovation projects and provide corresponding preferential policies to help SMEs to improve their own technological capabilities [16]. According to a survey by the China Industrial Internet Research Institute, nearly 40% of Chinese SMEs are currently in the start-up stage of digital transformation, and more than 50% of SMEs are in the stage of digital implementation, but less than 10% of enterprises in the whole market have reached the stage of in-depth application. Promoting the digital transformation and upgrading of SMEs is conducive to guaranteeing the sustainable development of these enterprises and increase these enterprises' technological competitiveness in international trade [20].

4. Conclusion

This paper analyzes and summarizes different aspects of cross-border trade problems faced by Chinese SMEs during and after the COVID-19. In addition, based on the actual situation of China's SMEs, this paper puts forward solutions to the different difficulties faced by these enterprises in cross-border trade.

Since 2019, the COVID-19 has spread around the world rapidly. It has seriously affected the economic situation both within China and worldwide. In addition to financing, exchange rate, business and credit risks, Chinese SMEs are also facing multiple problems such as a decline in orders, a sharp drop in revenue, rising operating costs, and a lack of product price and technological competitiveness. These difficulties faced by Chinese SMEs in cross-border trade after the epidemic can be resolved by corresponding measures, including strengthening trade co-operation with ASEAN countries, using government policy support, applying financial instruments to hedge risks to lock in profit margins, and improving SMEs' innovation capability and technological level.

However, there are still limitations and unconsidered aspects in this paper's suggestions on transnational trade of China SMEs. In the post-epidemic environment, many SMEs in China need to find out the risks in cross-border trade in a timely manner and adopt effective and targeted solutions if they want to develop stably and gain profits in cross-border trade.

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