



Research on the Approaches of the participation of China's SMEs in International Trade under Financial Crisis

Yanan Zhao

School of Economy, ShengYang University

No. 21Lianhe Rd, Dadong District, ShenYang 110041, Liaoning, China

E-mail: yanan725@sina.com

Abstract

Over the past 30 years, China's rapid growth of economy has been benefited from the tremendous contribution of SMEs, especially in foreign trade. However, the greatest impact of the financial crisis on China is on exports, and SMEs unavoidably is suffering hardest hit from it. Therefore, it is necessary to examine how SMEs participate in international trade under the new environment thereby contributing better and faster development to our economy. After the analysis of the development of SMEs in international trade, it has been drawn that the current trend of the overall development of SMEs in China is good, but there existing some internal problems, which will cause SMEs facing unprecedented challenges and opportunities in the financial crisis .As a result, SMEs should take the approaches to participate in international trade, such as adhering to independent innovation to enhance the market competitiveness of products; taking the use of operating flexibility to seek for new market space; taking full advantage of new tools to explore international market space; paying attention to avoiding trade barriers, and actively responding to anti-dumping lawsuits; actively investing abroad to conduct transnational business, etc., by which SMEs will soon be out of difficulties and fundamentally improve the depth and level of participation in international trade

Keywords: SME, Financial crisis, Participation in international trade

1. Development of SMEs in International Trade

SME is the important part of GDP throughout of the world, and China's rapid growth of economy also benefited from the tremendous contribution of SMEs over the past 30 years. Until June 2007, China's total number of SMEs has reached more than 4200 million, accounting for 99.8% of the total number of national enterprises, including more than 430 million small and medium enterprises registered by the business sector, and more than 3800 million self-employed households, which accounted for 76.6% of total employment, 64.5% of industrial output value, especially 68% of total merchandise exporting value. Thus, SMEs has become the main force of China's economic development and exports as well. However, the greatest impact of the financial crisis on China is on exports, and SMEs unavoidably is suffering hardest hit from it. Therefore, it is necessary to examine how SMEs participate in international trade under the new environment thereby contributing better and faster development to our economy. In recent years, more and more SMEs have been "going out" to expand overseas market, which has driven China's economy further to the market-oriented transition to large extent, and caused China's economy integrating with the world economy more and more closely.

1.1 Growth of Exports of SMEs

Since the reform and opening up, China has got sustained and rapid development of foreign trade, total value of exports increasing from 20.601 billion U.S. dollars of 1978 to 2.1738 trillion U.S. dollars of 2007 with average annual growth rate of 14.77%, so exports have become one of the most important factors to push national economy, obviously the exports growth rate of SMEs in China also remains high for a long time. Department of SMEs of National Development and Reform Commission chose some small and medium enterprises as samples for analysis and research to form "Research report of export-oriented SMEs" which has been registered in the State General Administration of Customs from 2003 to 2005, with total value of exports from the one million to 20 million U.S. dollars and annual growth rate of over 25%. The report showed that the value of China's exports in 2005 amounted to 761.999 billion U.S. dollars, and SMEs' exports reached 518.159 billion U.S. dollars, accounting for 68% of total exports. Since most of our export enterprises are SMEs, export orders index of PMI index can be selected to reflect the export situation of China's SMEs.(MENG Shan-shan, 2007)If the export orders index is above 50%, it will indicate the export expansion for a period of time, and opposite is true. From January 2005 onwards, the export orders index had maintained at above 50%, while with the gradual expansion of the financial crisis emerged in US. In 2007, the exports of SMEs have declined more and more quickly.

As shown in Table1, in January 2008 the export orders index was 49.0%, which has dropped to below 50% for the first time since January 2005. Especially since from September 2008, PMI index began to decline, driving the export orders index to fall down in November 2008 to the lowest of 29%, which reflected China's external demand being further weakened. Although the index has rebounded gradually since then and rose to nearly 50% in April 2009, export enterprises in China especially SMEs are still being confronted with a severe test.

1.2 Composition of exporting products of SMEs in international trade

At present most of exporting goods such as textile and garment, footwear, toys, luggage and other light industrial products, household plastic products and metal hardware, etc. are almost provided by SMEs. In recent years, SMEs are also actively involved in exports of high-tech and higher value-added products such as machinery equipment, electrical and electronic products, and chemical products, etc., and the proportion of SMEs in these three products has respectively amounted to 35%, 14.53% and 12.05%, rapidly growing trend being sustained. However, generally speaking, the structure of exporting goods of SMEs is still irrational, a long way for innovation and research to go. Most exporting products of SMEs are mainly resource-intensive and labor-intensive ones, therefore, the irrational structure of exporting products has brought a lot of obstacles to the survival and rapid development of SMEs. Though the state has strongly advocated "Improving trade with science and technology," but the improvement of exporting high-tech products was not obvious. According to statistics, the proportion for China's SMEs to invest in technology development is less than 40% of the national research funding, far below the level of 70% in developed countries. In particular, most private small and medium enterprises mainly rely on "imitation technology innovation" to develop, which involves small investment, short cycle, and quick pay back, but because of the ambiguity of property rights and low barriers to entry, enterprises do not have obvious advantages, and the additional value of the products produced by them is often low.

1.3 Regional distribution of exporting SMEs and destination countries of exporting goods

Exporting SMEs are mainly located along the coastal areas, from Bohai gulf centered by Shandong, and Liaoning, Yangtze River Delta centered by Zhejiang and Jiangsu, to the Pearl River Delta centered by Guangdong and Fujian, which have taken full advantage of the window status to and actively guide SMEs to take the road of export-oriented economy, thereby promoting the continuous development of the regional economy. Exporting destination countries mainly concentrated in the United States, Japan, Europe and other countries, which are the main trading partner of China for a long time, while the worst affected areas by the present financial crisis are Europe and America, which caused tremendous obstacles to the export of SMEs. So SMEs should actively explore new markets in order to avoid the risks of financial crisis. According to statistics of customs, in the first 8 months of 2009, the total value of bilateral trade between China and Brazil has amounted to 25.41 billion U.S. dollars, Brazil ranking as one of China's top 10 trade partners so far. (Fenxi Mining, 2009)

In view of the status above mentioned, the current trend of the overall development of SMEs in China is good, but there existing some internal problems, which concluding low level of technology, irrational export structure, concentration of destination of exporting countries, and weak anti-risk ability. Therefore, SMEs of China are facing unprecedented challenges with the internal problems together with the high degree of harm of the financial crisis, but opportunities also existing side by side.

2. Opportunities and Challenges Faced by SMEs in International Trade under the Financial Crisis

2.1 Challenges

2.1.1 Reduced demand for exports leading SMEs inadequate production

With proliferation and the severe impact of the U.S. sub-prime crisis, the world economy further slows down. The sluggish consumption growth in the United States and Europe, and the weakened importing demand lead to marked drop in the exporting growth of SMEs especially in processing trade, and varying degrees of reduction in exporting orders. Statistics shows that China's exports to U.S. will decrease by 4% whenever the economic growth of U.S. drops by 1%. According to the statistics from General Administration of customs of China, in 2008, the total value of bilateral Sino-US trade amounted to 333.74 billion U.S. dollars, growing by 10.5% compared with 2007, which reaching the lowest growth rate during the seven years after entry into WTO. And the exporting value of China to the U.S. was 252.3 billion U.S. dollars at an increase rate of 8.4%, which dropping to single digit the first time in seven years. Facing the sharp reduction in orders, the unique countermeasure many companies can apply is to "Produce as orders", i.e. Stopping production without orders, expectant. As the result of limited production, a large number of raw materials companies had purchased have been piled up in warehouses, together with many machinery and equipments, most SMEs have to maintaining a simple production in order to retain workers. In short, considerable number of enterprises is working under capacity. (Chen Lijin, 2009)

2.1.2 Financing difficulties causing a serious shortage of working capital

Most SMEs are in urgent need of funds in the early stage of development and access to rapid growth period. However, due to financing difficulties, enterprises can not acquire the large amount of fund needed for development. Even with the current turmoil global financial system and the banks non-performing assets increasing substantially, banks will raise credit standards in order to avoid risks, which would cause business loans and consumer credit more difficult, as the result of the deficiency of the SMEs, small scale, poor ability to resist risks, short life and low level of credit. Banks would provide more strict loan conditions to SMEs comparing with large enterprises for consideration of reducing credit risks which would cause the community reducing aggregate demand and the macro-economic environment deteriorate, and then SMEs would be lack in orders or even stop production or semi-cut-off.

2.1.3 Economic efficiency decreasing significantly

According to the survey on nearly 2,000 key enterprises by Ministry of Commerce of China, during the first half of 2009, average export profit margin is only 1.5%, decreasing by 6.2%, part of exporting SMEs facing difficulties, which is mainly reflected in the following facts, Firstly, export growth rate of SMEs lowering as result of sharply reducing overseas orders; secondly, SMEs being at the edge of loss because declining cost of export swap rate can not keep up with the appreciation of exchange rate; thirdly, profit margin of exporting SMEs has been severely squeezed with the superposition effect of the changes of tax refund rates, exchange rates, interest rates, raw material prices, labor costs and the monetary policy environment. Since most exporting enterprises of China belong to processing SMEs, already in the end of industry value chain, with the weak ability of price transfer, it is difficult for enterprises to cover operational costs through increasing prices and profit margins of them are further squeezed. in buyer's market.

2.2 Opportunities

Despite enormous difficulties faced by SMEs, opportunities of development also come so that SMEs should seize these opportunities to continue development in the new platform.

2.2.1 Opportunities of global industrial transfer

After the outbreak of the financial crisis, the pattern of the world economic development needs to be re-adjusted. From the perspective of the manufacturing sector, the current global manufacturing industry mainly lies in North America, Europe and East Asia, and East Asia represented by Japan and South Korea. At present, China's manufacturing industry occupies an important position in the world, second-largest manufacturing great-power, accounting for 13.2% of that of the global value, but still far below the 20% share of the United States. However, after the hit of financial crisis, the United States, European Union, Japan and other developed economies will fall into recession in 2009 or the edge of a recession, so that the manufacturing industry in developed countries will undoubtedly accelerate the speed of transfer to developing countries to offset the adverse effects on local economy, which will help speed up the formation of China's "world factory" and bring a historic opportunity for the development of manufacturing industry. So far, despite a cyclical downturn of macroeconomic trends faced by China, the degree of the manufacturing sector still remains at a high level. Therefore, after the financial crisis of the industrial structure adjustment, China will strengthen its manufacturing center, and in the near future is likely to replace the U.S. as the world's largest manufacturing base, by which SMEs can get greater share of international trade in the global industrial transfer to drive China's economy out of shadow of the financial crisis.

2.2.2 Opportunities of industrial upgrading

With the development of economic globalization, new industrial revolution and the core technologies is providing an opportunity of "reshuffle" to help backward countries achieve economic development by leaps and bounds through the development of new leading industries. The long-term development of export-oriented SMEs in China and the problems, (such as the low level of technology, mainly engaged in processing trade and low value-added products) focusing in the current financial crisis make China's SMEs in an urgent need to conduct industrial upgrading in process. Thus, we must seize the current favorable opportunity to actively undertake the transfer of global industry and accelerate the optimization and upgrading of industrial structure to achieve sound and fast economic development, which is bound to provide unprecedented opportunities for the development and innovation of China's SMEs and new opportunities for China's industrial and product upgrading.

2.2.3 Opportunities of favorable domestic policies

In order to help SMEs cope with the financial crisis, in 2008, the central and local governments of China have adopted a series of policies and measures to secure steady and rapid development of SMEs, such as improving export tax rebate rate of some labor-intensive products, guiding the SMEs credit guarantee institutions to make greater effort to ease the difficulties of production and management for SMEs activating a package of over 4 trillion yuan construction plans to promote economic development. In addition, the commercial banks have also introduced new measures to support SMEs' development, such as simplifying procedures of small business loans, separately arranging credit scale,

satisfying the liquidity needs of SMEs complying with industrial and environmental policies. With the implementation of the above-mentioned policies, SMEs will get tremendous opportunities for development. (NELSON K. H., 2003)

Therefore, SMEs should actively take advantage of these policy supports and resource to create conditions for the government loan assistance, further expand exports and strengthen their leading role in driving China's exports.

3. Approach Choices of SMEs' Participation in International Trade

3.1 Adhering to independent innovation to enhance the market competitiveness of products

It is often ineffective for SMEs to survive only by the simple strategy to reduce prices owing to their small-scale, low level of technology and weak market capacity. Only if SMEs implement their own innovative strategies, take the way of "small but specialized, specialized but tertiary", manage to raise the added value of products, enhance market competitiveness and create differentiated products, would they get rid of difficulties to expand their own market space. Firstly, fully understand the importance of innovation. Many SMEs do not really recognize the importance of innovation and R & D, usually putting production and operation income in the first place while ignoring long-term development of enterprises. Therefore, it is much important to work out relationship between production and R & D. Secondly, orient the innovation of SMEs to market demand. R & D and innovation are aimed at better development of SMEs in the future market competition for them to occupy a dominant position to get more profit. Therefore, all innovation and R & D need to carry out according to the actual needs of the market. Thirdly, obtain innovative technologies outside SMEs through introduction, cooperation and mergers. SMEs can get access to innovative technologies after the correct assessment on the market, its capacity and partners through introduction, cooperation and mergers. (HUANG Bin FANG , 2009)

3.2 Taking the use of operating flexibility to seek for new market space

Due to less restriction of traditional economic system, SMEs are strongly interest-driven and market-oriented with flexibility and variability, which request SMEs own a large number of daring entrepreneurs who can take full advantage of their own strengths and market opportunities to develop their business with the absolute control over companies and rich industry knowledge. Additionally, with a strong innovation and pioneering spirit, they can rapidly adjust business decisions to adapt to new economic requirements of the times to come into the market areas usually ignored by large enterprises, as which there existing characteristics as short product life cycle, low but stable profits, inadequate market capacity, and small quantity of production. At present, exporting goods of SMEs are mainly distributed in the United States and Europe, which were badly hit by the financial crisis, so SMEs should actively explore new markets, actively stepping out the shadow from the financial crisis.

3.3 Taking full advantage of new tools to explore international market space

During the global economic crisis, facing the situation of shrinking export markets, many SMEs have to tighten expenditure thereby changing the traditional sales methods in order to reduce marketing costs, which concerns that SMEs can acquire complete information quickly through e-commerce, greatly reducing the search costs and improving the efficiency of the search; find suppliers on line to reduce purchasing costs and improve the international market competitiveness of products and expand overseas market through searching purchasers on line. According to "2009 Annual Report on the development of Network enterprises" issued by Alibaba, after 10 years of development, network enterprises of China have gradually realized the integration with the mainstream of socio-economic system. Till the first half of 2009, the amount of China's network enterprises has been expanded to 63 million, with the growing social impact. Thus, SMEs can make use of e-commerce to help enhance mutual exchanges, and to gain more effective means than traditional means of marketing channels to expand the volume of foreign trade.

3.4 Paying attention to avoiding trade barriers, and actively responding to anti-dumping lawsuits

Since small differences of exporting goods of the majority of SMEs in China led to the situation of export order in chaos and dramatic price competition, when SMEs were expanding overseas rapidly, they have been exposed to an increasing number of barriers to trade, anti-dumping lawsuits and intellectual property litigation. At present, due to the impact of financial crisis on the global trade, countries are expected to protect their own economy by stimulating domestic demand or taking import substitution measures, while most exporting goods of China's SMEs are labor-intensive, low value-added and easily substitutable, so China's exporting goods ran into hardest hit by trade barriers. (Ruta Aidis, 2005)

As shown in figures of WTO, during the first half of 2008 there launched 85 new anti-dumping investigations, 37 of which were directed against China's export products, accounting for 43% of the overall amount. Therefore, SMEs in China should raise awareness of barriers to trade, and pay attention to the harm caused by trade barriers, on the one hand, avoiding trade barriers through a variety of ways and means to reduce the harm by trade barriers; on the other hand, emphasizing on the anti-dumping lawsuits to actively respond to them. And then, each SME should strengthen its integration to hedge their risks by the full use of the power of community organizations.

3.5 Actively investing abroad to conduct transnational business

With the expansion of globalization and the increasingly fierce international competition, China's SMEs expand overseas investment and international co-operation not only to avoid the above-mentioned barriers to trade, but also to get the interests of international competition and to serve as a useful complement to the expansion of exporting goods. At present, the main force of China's foreign investment is large enterprises, foreign investment of SMEs is still in its infancy. SMEs should actively carry out foreign investment, do develop cross-border operations with the use of their own advantages.

4. Conclusion

SMEs' participation in international trade is a complicated systematic project, and can not be solved only by themselves. In face of financial crisis, SMEs should continuously improve themselves and seek for the space to survive and develop in the environment for changes. At the same time, the Government has the responsibility and obligation to provide the necessary support to help SMEs survive in difficulties. It is believable that SMEs will soon be out of difficulties and fundamentally improve the depth and level of participation in international trade with the efforts of both the government's policy support and the creating ability of SMEs.

References

- Fenxi Mining. (2009). Study on the Payment Incentive Mechanism of Small and Medium-Sized Enterprises under the Financial Crisis. *Rural Economy*. (Vol 8) (91-93).
- HUANG, Binfang. (2009). Technological Achievement and the Sustainable Development of Regional Medium and Small Export Enterprises: Corresponding Renovating Countermeasures. *Journal of International Trade*. (Vol7) (106-108).
- Lijin Chen. (2009). The Impact of Global Financial Crisis on China's Small & Medium-Sized Enterprises and Their Corresponding Strategies. *REFORMATION & STRATEGY*, 25(6): (85-87).
- Shan-shan MENG & Hui-ying WANG. (2007). Solutions to small and medium-sized enterprises' financial services of China. *China-USA Business Review*, Mar. Volume 6, No. 3 (Serial No.45) (79-82).
- NELSON K. H. TANG. (2003). Development of an Electronic business Planning Model for Small and Medium-Sized Enterprises. *International Journal of Logistics: Research and Applications*, Vol. 6, No. 4, (289-304)
- Ruta Aidis. (2005). Institutional Barriers to Small- and Medium-Sized Enterprise Operations in Transition Countries. *Small Business Economics*, 25: 305-318.

Table 1. PMI index and Export Orders index since Jan.2008

Time	PMI index	Export Orders index
Jan.2008	53.0%	49.0%
Feb.2008	53.4%	51.3%
Mar.2008	58.4%	59.1%
Apr.2008	59.2%	58%
May.2008	53.3%	54.4%
Jun.2008	52.0%	50%
Jul.2008	48.4%	46.7%
Aug.2008	48.4%	48.4%
Oct.2008	44.6%	41%
Nov.2008	38.8%	29%
Dec.2008	41.2%	30.7%
Jan.2009	45.3%	
Feb.2009	49%	
Mar.2009	52.4%	47.5%
Apr.2009	53.5%	50%
Jun.2009	53.2%	51.4%

Data Resource: <http://www.mofcom.gov.cn/>