

Reconciling SME Production in China with Coronavirus Control

Xiaobo Zhang and Ruixin Wang

With the steady decline in new confirmed cases of coronavirus in China beyond Hubei Province, public scrutiny has increasingly shifted to the economy affected by the outbreak, particularly the impact on the plethora of small and medium enterprises (SMEs). An [earlier CGD note](#) explored the impact of coronavirus on SMEs using data from the Enterprise Survey for Innovation and Entrepreneurship in China (ESIEC) and follow-up interviews. In this accompanying note, we consider how SMEs can resume production without compromising epidemic control.

For now, a key challenge for SMEs is the delay in work resumption due to epidemic control. To effectively control the coronavirus outbreak, a delay in work resumption is undoubtedly necessary. However, SMEs are struggling in the face of financial and operational difficulties due to the delay. We argue that there is no one-size-fits-all solution to resuming production, and that place-based policies that reflect local conditions offer the best approach to balancing SME production and public health concerns. We recommend that decision-making be passed to local governments and entrepreneurs, allowing them to address specific problems and seek the most reasonable and viable work resumption solutions.

RESOLVING THE CONTRADICTION BETWEEN WORK RESUMPTION AND EPIDEMIC CONTROL

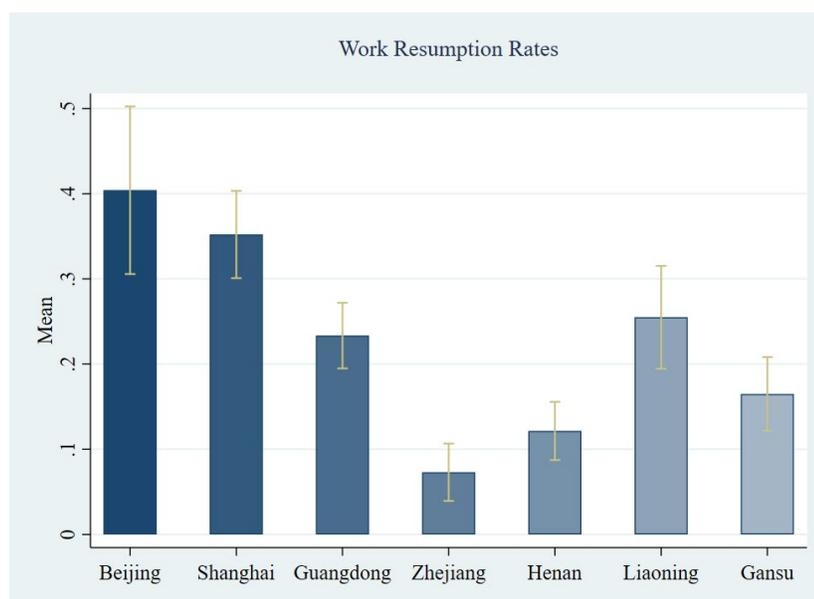
The relief measures for affected SMEs rolled out to date mainly emphasize cost reductions for idle enterprises, including reductions in rents, taxes, and fees, and exemptions for five types of insurance (endowment, medical, unemployment, work-related injury, maternity) as well as the Housing Provident Fund. Other relief measures aim to lower financing costs and lessen the capital requirements of enterprises. However, to fundamentally resolve the operational difficulties faced by SMEs, enabling them to resume work in the shortest possible time, with the goal of safety in mind, would be the most effective relief measure.

Though most Chinese provinces began to allow enterprises to resume work starting February 10, only 22 percent of enterprises interviewed were able to do so from that date. For the enterprises that have not yet resumed work, less than 15 percent do not expect to be in a position to do so within two weeks. Even among those enterprises that managed to resume work, most cannot operate at full capacity and

with their entire complement of employees. Among the seven provinces and cities surveyed, work resumption rates are relatively higher in Beijing, Shanghai, and Liaoning, at 40 percent, 35 percent, and 25 percent, respectively (Figure 1). In Guangdong, Henan, and Zhejiang, where the outbreak has been more severe, work resumption rates are as low as 23 percent, 12 percent, and 7 percent, respectively. Surprisingly, Gansu, with relatively limited repercussions from the outbreak, recorded a 16 percent work resumption rate. These numbers reflect the variety and complexity of the difficulties faced by each region.

We leveraged Baidu Migration Big Data¹ to estimate the proportion of work resumption in the migrant population in each province as of February 10—that is, the proportion of those returning to the provinces surveyed after traveling to their hometown for Chinese New Year. We found that in Guangdong and Zhejiang provinces, which rely heavily on migrants, work resumption rates were only 26 percent and 11 percent, respectively. This confirms the difficulties faced by enterprises in resuming work.

Figure 1. Work Resumption Rates of Each Province as of February 10, 2020



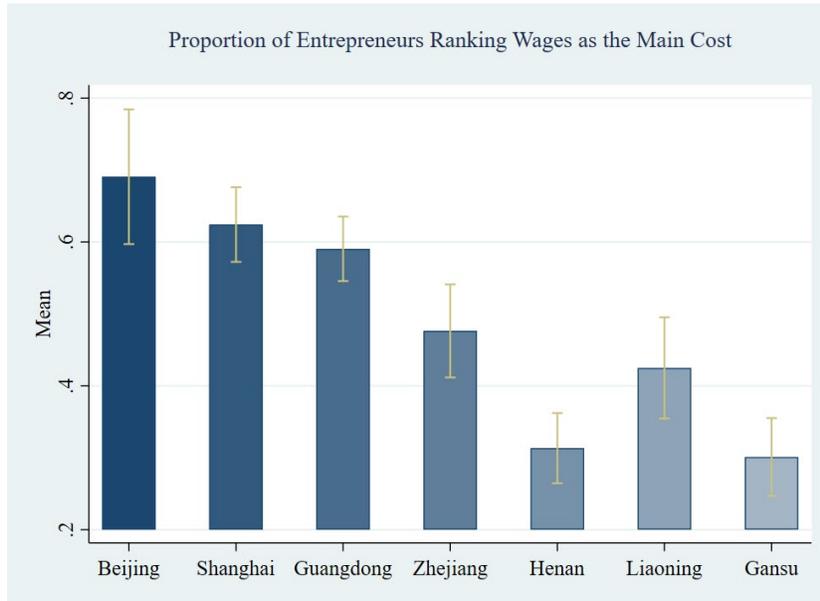
Source: ESIEC, Special Outbreak Data

Note: Authors' calculations based on survey data. Vertical lines in the bar chart represent 95 percent confidence intervals. If vertical lines in a bar chart do not match one another, this means that the average values of the two groups differ at the 95 percent significance level.

A large number of enterprises face capital-related issues as a result of idling. Some 50 percent and 61 percent, respectively, of the entrepreneurs interviewed consider that wages and rents represent the main costs of doing business. As shown in Figures 2 and 3, in Beijing, Shanghai, Guangdong, and Zhejiang, which have relatively more developed economies, these two cost items are particularly critical for entrepreneurs.

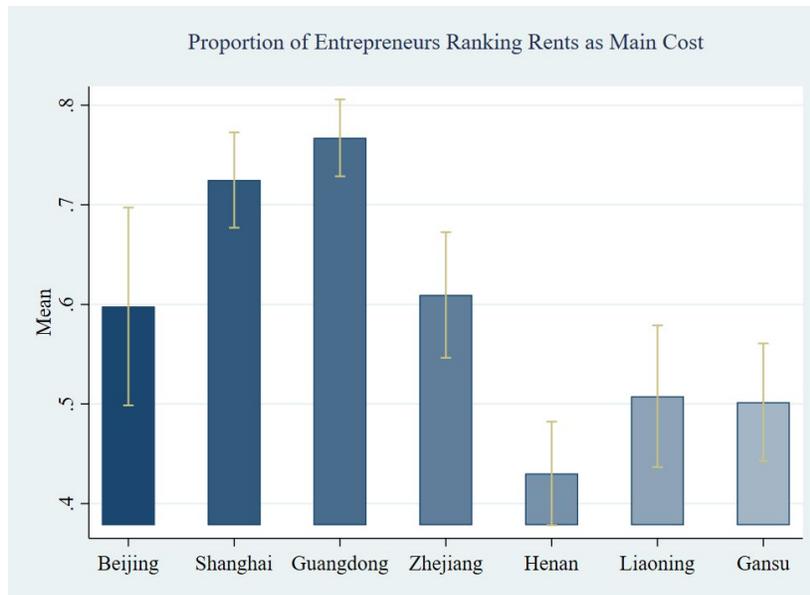
¹ Reference website: <http://qianxi.baidu.com>

Figure 2. Proportion of Entrepreneurs Ranking Wages as the Main Cost in Each Province



Source: ESIEC, Special Outbreak Data

Figure 3. Proportion of Entrepreneurs Ranking Rents as Main Cost in Each Province



Source: ESIEC, Special Outbreak Data

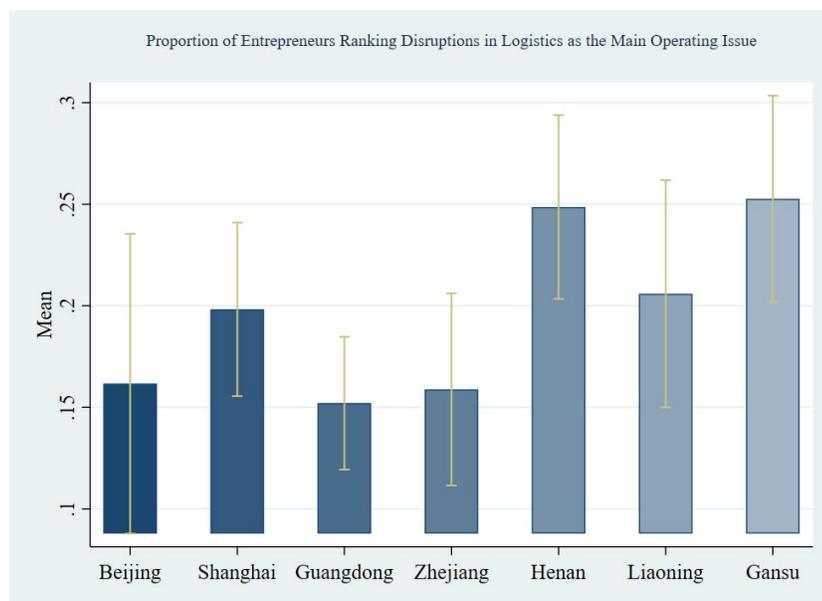
Correspondingly, 66 percent of entrepreneurs interviewed cited the issue of cash flow, with this proportion surpassing 70 percent in Shanghai and Guangdong. Overall, 63 percent of the entrepreneurs interviewed reported that their cash flow may not survive beyond three months. Simultaneously, over

half of these entrepreneurs also cited the existential issue of contract performance. A total of 49 percent of them believe that declining orders is their main operating issue, and 14 percent have begun to worry about disruptions to the industrial chain, particularly in Zhejiang Province, where this proportion rises to 18 percent. It is apparent that if work resumption continues to be delayed, some of these concerns may become a reality.

Policymakers appear to face a dilemma between controlling the epidemic and resuming work in a timely manner. **However, as we probe deeper into conditions on the ground, we find that in many areas, the apparent conflict between work resumption and epidemic control is far from irreconcilable. The reason for this situation is that there are stark differences across regions in the degree of impacts from the outbreak. Furthermore, the outbreak is not the only source of difficulty in resuming work.**

For example, in Henan Province, an area severely affected (in relative terms) by the outbreak, the severity of the outbreak will necessarily force the local government to exercise caution in tackling the issue of work resumption. In reality, Henan’s work resumption rate of under 12 percent is not attributable only to the outbreak itself but also to disruptions in logistics. As shown in Figure 4, 25 percent of the entrepreneurs interviewed in Henan Province feel that disruptions in logistics is their main operating issue, a ratio seemingly higher than in many provinces. Forty percent of entrepreneurs cited shortages of raw materials. Gansu Province, located further inland, also suffers from disruptions in logistics. The proportion of entrepreneurs interviewed in Gansu Province who also suffered from logistics disruption and shortages of raw materials are 25 percent and 47 percent, respectively, far higher than in coastal provinces.

Figure 4. Proportion of Entrepreneurs Ranking Disruptions in Logistics as the Main Operating Issue in Each Province



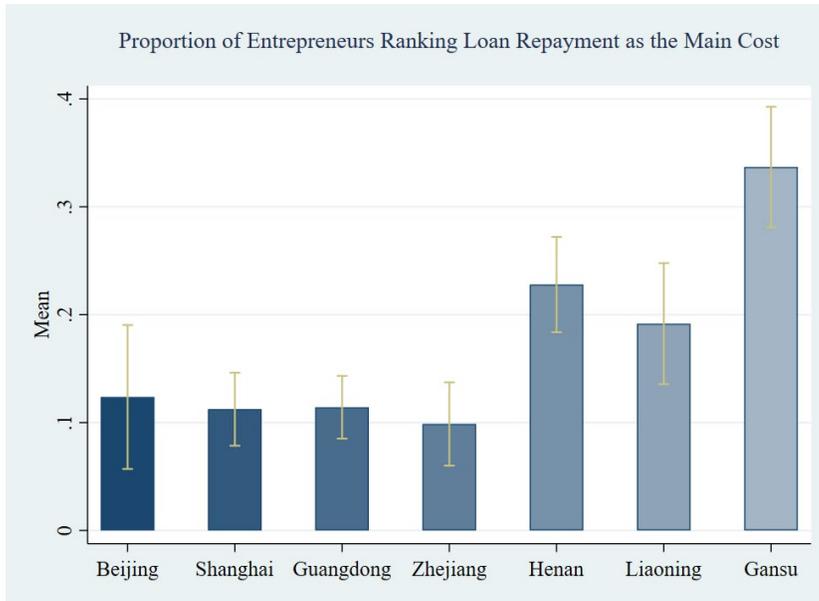
Source: ESIEC, Special Outbreak Data

WORK RESUMPTION REQUIRES MORE THAN EMPLOYEES—IT ALSO REQUIRES THAT THE ELEMENTS OF PRODUCTION ARE READY

For enterprises located far inland or within a more rural economy, reliable supplies of raw materials may depend on long transportation lines spanning several provinces. As a result, disruptions in logistics are likely to become one of the bottlenecks obstructing work resumption. Restoring normal logistics requires not only close coordination between different departments but also effective cooperation between regions. At the same time, for truck drivers, long-distance transportation inevitably increases the risk of infection. In practice, this also delays the restoration of normal logistics. Enhancing epidemic control protection for transportation workers and providing appropriate economic incentives will therefore help ensure the restoration of normal logistics and work resumption in enterprises.

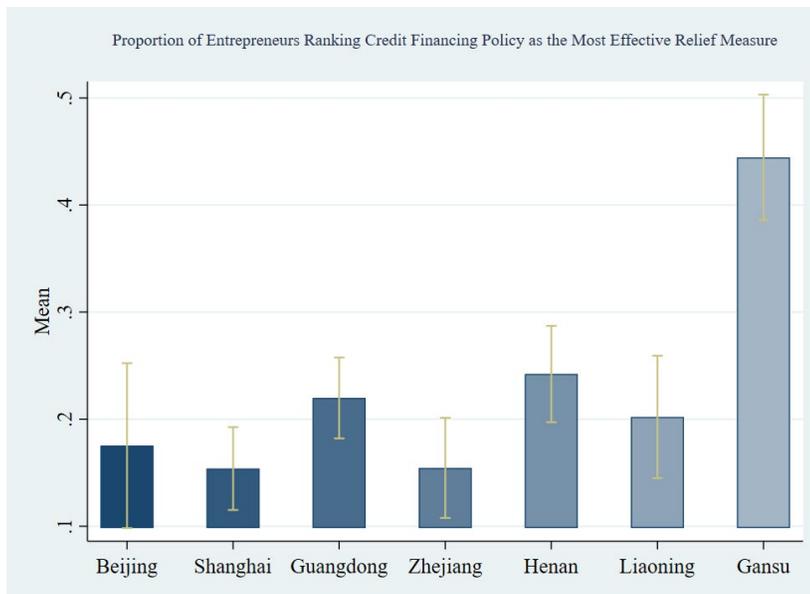
Despite the relatively limited impact of the outbreak on Gansu Province, its work resumption rate stands at only 16 percent. Apart from disruptions in logistics, pressure on capital turnover is another important factor. Among the entrepreneurs interviewed in Gansu province, over 70 percent revealed the existence of cash flow problems, while 34 percent believe that the main cost pressure is loan repayment—far higher than in other provinces (Figure 5). In an earlier survey, we found that the proportion of SMEs applying for loans and financing from banks in Gansu Province was higher than in most other provinces. With the impact of the coronavirus, pressure to repay loans will undoubtedly place enormous strain on the capital chain, a problem already escalated by the issue of idling. Banks may recall loans or withdraw credit lines, placing tremendous pressure on entrepreneurs and further delaying work resumption. A vicious circle is thus created. In our survey, 44 percent of Gansu entrepreneurs ranked lowering the financing costs of SMEs and extending loan terms or partial exemptions of liabilities as the most effective relief measure. This proportion is far higher in Gansu than in other provinces (Figure 6). A relatively expansionary and flexible financing and repayment policy may therefore be critical to relieving cash flow pressures on Gansu enterprises and ensuring timely work resumption.

Figure 5. Proportion of Entrepreneurs Ranking Loan Repayment as the Main Cost in Each Province



Source: ESIEC, Special Outbreak Data

Figure 6. Proportion of Entrepreneurs Ranking Credit Financing Policy as the Most Effective Relief Measure in Each Province



Source: ESIEC, Special Outbreak Data

In Guangdong and Zhejiang provinces, which have been more severely affected by the outbreak and have relatively more mobile populations, a delay in work resumption is a necessary means of epidemic control. However, this does not mean that epidemic control and work resumption cannot co-exist. In fact, there are huge differences in the size of mobile populations across cities, districts, and counties, particularly mobile populations from Hubei Province, where the coronavirus originated. For example, based on Baidu Migrate Big Data, we estimate that 7.7 percent of mobile populations who left Guangdong travelled to Hubei at the start of the Chinese New Year travel season, while over 70 percent are from Shenzhen, Guangzhou, and Dongguan. Similarly, of those who left Zhejiang Province for their homeland before Chinese New Year, only 5.8 percent returned to Hubei Province, and almost 70 percent are from Wenzhou, Hangzhou, and Ningbo. As a result, formulating appropriate policies based on specific outbreaks and mobile population conditions will inevitably assist each local government in balancing the dilemma of epidemic control and work resumption as well as carefully implementing orderly work resumption.

THE DECISION TO RESUME WORK IS BETTER LEFT TO ENTREPRENEURS

In reality, many local governments have implemented a “One Enterprise, One Policy” approach, which applies particular policies to each enterprise based on local conditions and the leveraging of comprehensive information on enterprises. This helps enterprises resume work at the earliest possible date. Meanwhile, given the plethora of SMEs and the complex circumstances, a hierarchical policy system in which information collection and decision making go through layered reporting and approval will unavoidably be less efficient and slower. Even if the enterprises were ready, they may still be unable to resume work. Consequently, rather than the “One Enterprise, One Policy” approach, **local governments should leave the decision to resume work to entrepreneurs and fully utilize corporate information in the most efficient way possible.** In addition, putting in place and strictly implementing a reward-punishment system for corporate epidemic control makes it clear that those who decide to resume work are fully responsible, which will ensure that work resumption is conducted in an orderly and effective manner. In fact, in our interviews with entrepreneurs, we found that the entrepreneurs are in general highly concerned about epidemic control and safe production. As the highest-ranking decision maker responsible for the enterprise, the entrepreneur must strike a cautious balance between epidemic control and work resumption at the earliest possible date.

In brief, responsible policies should avoid simplistic judgments and refrain from a standardized solution for all—as well as overreaction—to truly achieve a science-based, orderly, and, if possible, accommodating and balanced work resumption solution. The key to work resumption lies in a comprehensive study of the conditions faced by local governments and enterprises. **We recommend that decision-making be passed to local governments and entrepreneurs, allowing them to address specific problems and seek the most reasonable and viable work resumption solutions.**

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The Enterprise Survey for Innovation and Entrepreneurship in China (ESIEC) is one of the key survey projects of the Institute of Social Science Surveys of Peking University. It is conducted by the Center for Enterprise Research of Peking University. The ESIEC Project Alliance consists of Peking University, Central University of Finance and Economics, Harbin Institute of Technology – Shenzhen Campus, Guangdong University of Foreign Studies, and Shanghai University of International Business and Economics.



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XIAOBO ZHANG is at the National School of Development, Peking University.

RUIXIN WANG is at the School of Economics and Management, Harbin University of Technology – Shenzhen Campus.