

Small and Medium-Sized Enterprises in China: A Systematic Literature Review

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ABSTRACT: A focus of international business interest is not only on large multinational enterprises, but also on small and medium enterprises (SMEs). SMEs play a significant role in economic development regarding GDP growth, national revenue and employment, in both high-income and low-income economies. Chinese SMEs have made great contributions to economic growth and social stability during the past four decades. This paper identifies the definition and measurement of SMEs in China. Moreover, this paper will also discuss the competitive status of Chinese SMEs.

KEY WORD: Definition, Measurement, Competitive Status, Chinese SMEs

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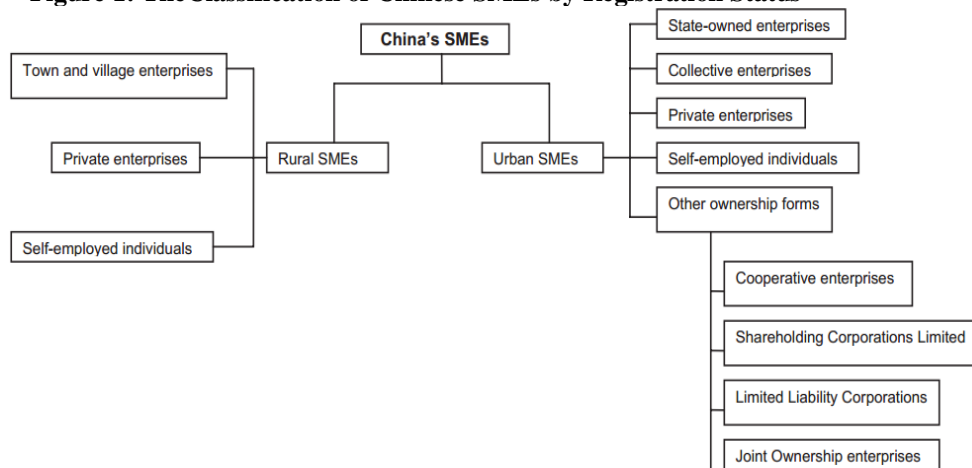
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I. THE DEFINITION AND MEASUREMENT OF SMEs IN CHINA

The criterion of SMEs in China is very complicated, which is in accordance with the industrial category concerning the number of employees, total assets, balance sheet, business revenue and the annual condition of turnover. Generally speaking, according to the newest standard of Chinese SMEs issued by the Chinese government in 2019, the annual turnover of micro-sized enterprises is less than 3 million RMB (around 0.47 million US dollars) with less than 20 workers. The annual turnover of small-sized companies is from 3 million RMB (around 0.47 million US dollars) to 30 million RMB (around 4.7 million US dollars) with 20 to 300 personnel. In addition, the annual turnover of medium-sized firms is from 30 million RMB (around 4.7 million US dollars) to 300 million RMB (around 46.87 million US dollars) with 300 to 2000 staffs.

Besides the quantitative definition above, Chinese SMEs are classified for the status of registration as well. In general, SMEs in China are categorized into rural SMEs and urban SMEs (see Figure 1 below). Township and Village Enterprises (TVEs), Private Enterprises (PEs) and rural self-employed individuals are constituted rural SMEs. Moreover, small and medium sized State-Owned Enterprises (SOEs), urban Collective-Owned Enterprises (COEs), urban PEs and urban self-employed individuals are constituted urban SMEs. With the further development of market-oriented reform, cooperative enterprises, shareholding corporations limited, limited liability corporations and joint ownership enterprises are emerged and expanded as the other ownership of urban SMEs. It is worth mentioning that most Chinese SMEs are non-SOEs, including PEs, TVEs, COEs, self-employed individuals and other ownership enterprises.

Figure 1: The Classification of Chinese SMEs by Registration Status



Source: Li (2012)

Compared with the European Union and the United States, the standard of Chinese SMEs is quite broad as the number of employees is less than 2000. However, the requirements of employee numbers are only less than 250 and 500 in the European Union and the United States respectively (see Table 1 below). This criterion of SMEs in China is more wide-ranging than in other countries, which makes for a difficult comparison. Therefore, in this research, the definition of SME from the American Small Business Administration (SBA) is applied, which is widely accepted and agreed in the entrepreneurship literature. Under the definition from SBA, it will decrease the number of employees from less than 2000 to less than 500. As a matter of fact, the number of enterprises with fewer than 500 staffs overwhelmmost of the SMEs in China.

Table 1: The Definition of SMEs in China, the EU and the US

Various Countries ↕	China ↕	European Union ↕	United States ↕
Number of Employees ↕			
Micro ↕	<20↕	<10↕	—↕
Small ↕	20-300↕	<50↕	< 100↕
Medium ↕	300-2000↕	<250↕	< 500↕
Annual Turnover↕			
Micro ↕	<Y3million↕	<€2 million↕	—↕
Small ↕	Y3million-Y30million↕	<€10 million↕	—↕
Medium ↕	Y30million–Y300million↕	<€50 million↕	—↕

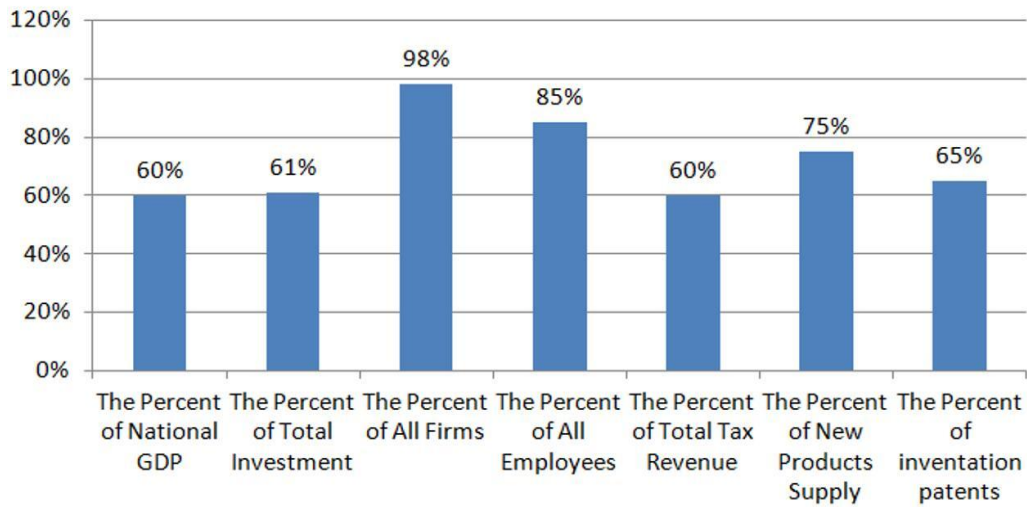
Source: *The Ministry of Industry of The People’s Republic of China(2022); European Commission (2022)*

II. THECURRENTLYCOMPETITIVE STATUS OF CHINESE SMEs

Chinese SMEs have changed from being insignificant to a complementary role and then to an indispensable section in the past fifty years. In order to accelerate the development of SMEs, the Chinese government has implemented several growth programs for SMEs such as the association of SMEs development. In recent years, the position and status of SMEs in China have been expanding very quickly. Chinese SMEs not only play a significant role in economic growth, but also provide many new job opportunities and unleash economic vitality. Based on the statistics from National Bureau of Statistics, the number of newly established SMEs has shown a stable increase since 2015 until 2019. Most notable is the role of Chinese SMEs and its extreme importance in terms of national GDP, tax revenue, foreign export volumes and employment. On average, SMEs have made a great contribution to at least fifty-nine percent of national GDP, around fifty percent to tax revenue, approximately sixty-eight percent to foreign export volumes and seventy-five percent to employment in the last twenty years. Furthermore, SMEs in China have accounted for sixty-five percent of invention patents, and nearly eighty percent of new products and new services as well.

For example, in 2019, there were approximately 52.751 million of SMEs in China, which occupied more than 98% of all types of firms. Figure 2 below reveals that Chinese SMEs represented 85% of total employment and provided 75% of new products as well as 65% of invention patents. Moreover, Chinese SMEs also contributed to 60% of national GDP, 61% of total investments and 60% of overall tax in 2019.

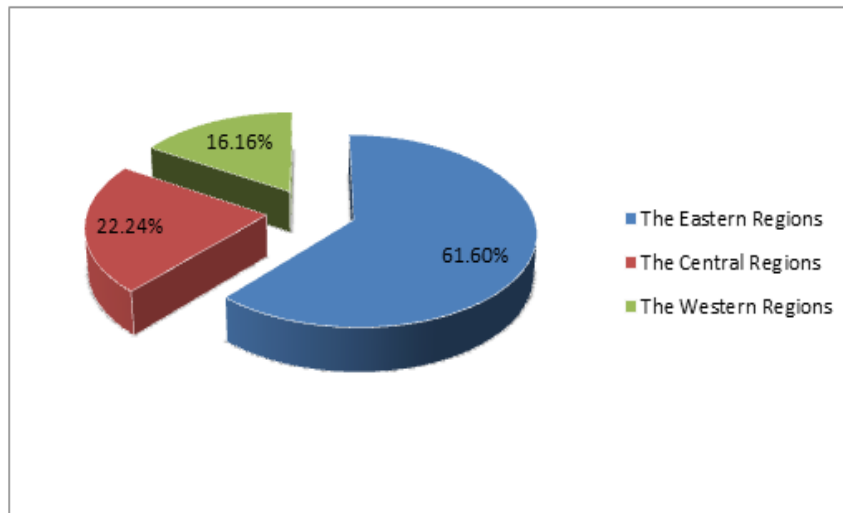
Figure 2: The Proportion of Chinese SMEs in 2019



Source: China Statistical Yearbook (2019)

On the other hand, the distribution of Chinese SMEs is imbalanced. As the Figure 3 below shows, the percentage of SMEs in eastern regions, including twelve provinces, represents 61.6% of total SMEs. Furthermore, the proportion in central regions, including nine provinces, accounts for 22.24% of overall SMEs in China. However, SMEs in western areas of China covering ten provinces only occupy 16.16% of a totality.

Figure 3: The Distribution of Chinese SMEs in Different Regions

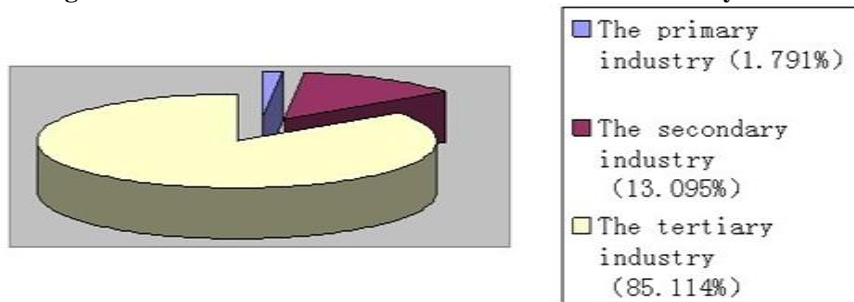


Source: Han (2021)

Furthermore, the distribution of export-oriented SMEs is uneven as well. They are mostly situated in coastal regions of China, including Bohai Gulf centered by Shandong Province and Liaoning Province, Yangtze River Delta centered by Zhejiang Province and Jiangsu Province, the Pearl River Delta centered by Guangdong Province and Fujian Province. Generally speaking, these SMEs usually take full advantage of geographic superiorities to promote their export business. The exporting destinations are mainly concentrated on the United States, the European Union, Japan, South Korea and other developed countries with the long-time trading relationship of China. However, the economic recession has brought a lot of obstacles to the export business of Chinese SMEs. Therefore, SMEs in China actively explore new international markets to avoid uncertain business risks. For example, according to the Ministry of Commerce of the People’s Republic of China, the total value of bilateral trade between China and Brazil reached 83.33 billion US dollars in 2019, increased by 10.4% than that of in 2018. Brazil has become one of top ten trade partners of China so far.

Additionally, the majority of Chinese SMEs are involved in the tertiary industry, which accounts for approximately 85% of a totality. The percent of secondary industry that Chinese SMEs engaged in is around 13%. However, less than 1.8% of Chinese SMEs are operated in the primary industry (see Figure 4 below).

Figure 4: The Percent of Chinese SMEs in Different Industry



Source: Han (2021)

III. CONCLUSION

Although SMEs are normally more vulnerable in the time of low economic effectiveness, the economic downturn should not damage their engine of sustainable development. Chinese SMEs have occupied a vital position with an increasingly significant role in the economic development and the social harmony. In the face of economic depression, SMEs in China should constantly improve themselves to explore new opportunities, seek for more survival spaces and accelerate their structural shifts towards a much stronger future. In the meantime, the Chinese government must take inevitable responsibilities to build a more wholesome environment for the growth of SMEs. With the joint efforts from both government and enterprise itself, it is believable that SMEs in China will further improve their business performance.

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