

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

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Abstract

Over the past 30 years, China's expeditious magnification of economy has been benefited from the tremendous contribution of SMEs, especially in peregrine trade. However, the greatest impact of the financial crisis on China is on exports, and SMEs ineluctably is suffering hardest hit from it. Ergo, it is indispensable to examine how SMEs participate in international trade under the incipient environment thereby contributing better and more expeditious development to our economy. After the analysis of the event of SMEs in international trade, it's been drawn that the present trend of the general development of SMEs in China is sweet, but there subsisting some internal quandaries, 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 utilization of operating flexibility to seek for incipient market space; thoroughly capitalizing on incipient implements to explore international market space; fixating on evading trade barriers, and actively responding to anti-dumping lawsuits; actively investing abroad to conduct transnational business, etc., by which SMEs will anon be out of difficulties and fundamentally ameliorate the depth and level of participation in international trade

Keywords: SME, Financial crisis, Participation in international trade

Introduction

The issue of extortion is noteworthy for open Development of SMEs in International Trade. SME is the consequential part of GDP throughout of the world, and China's expeditious magnification of economy withal benefited from the tremendous contribution of SMEs over the past 30 years. Until June 2007, China's total number of SMEs has reached quite 4200 million, accounting for 99.8% of the entire number of national enterprises, including quite 430 million minuscule 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 most force of China's economic development and exports also. However, the greatest impact of the financial crisis on China is on exports, and SMEs ineluctably is suffering hardest hit from it. Consequently, it is compulsory to examine how SMEs participate in international trade under the incipient environment thereby contributing better and more expeditious 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 sizably voluminous extent, and caused China's economy integrating with the world economy more and more proximately.

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

2.1 Challenges

2.1.1 Minimized demand for exports leading SMEs inadequate engenderment

With proliferation and therefore the rigorous impact of the U.S. sub-prime crisis, the planet economy further decelerates. The sluggish consumption magnification within the Cumulated States and Europe, and therefore the debilitated importing demand cause marked drop by the exporting magnification of SMEs especially in processing trade, and ranging degrees of abbreviation in exporting orders. Statistics shows that China's exports to U.S. will decrement by 4% whenever the economic magnification of U.S. drops haply. consistent with the statistics from General Administration of customs of China, in 2008, the entire value of bilateral Sino-US trade amounted to 333.74 billion U.S. dollars, growing by 10.5% compared with 2007, which reaching rock bottom magnification rate during the seven years after ingress into WTO. and therefore the exporting value of China to the U.S. was 252.3 billion U.S. dollars at an incrimination rate of 8.4%, which dropping to single digit the primary time in seven years. Facing the sharp abbreviation in orders, the unique countermeasure many companies can apply is to "Produce as orders", i.e. Ceasing engenderment without orders, expectant. because the results of inhibited engenderment, an immensely colossal number of raw materials companies had purchased are accumulated in warehouses, along side many machinery and equipments, most SMEs need to maintaining an easy engenderment so as to retain

workers. In short, considerable number of enterprises is functioning under capacity. (Chen Lijin, 2009)

2.1.2 Financing difficulties causing a solemn shortage of capital

Most SMEs are in exigent desideratum of funds within the early stage of development and access to expeditious magnification period. However, thanks to financing difficulties, enterprises can't acquire the substantial quantity of fund needed for development. Even with the present turmoil ecumenical economic system and therefore the banks non-performing assets incrementing substantially, banks will raise credit standards so as to evade peril, which might cause business loans and credit line more arduous, because the results of the deficiency of the SMEs, diminutive scale, poor faculty to resist peril, short life and low caliber of credit Banks would offer more rigorous loan conditions to SMEs comparing with sizably voluminous enterprises for consideration of minimizing credit risks which might cause the community truncating aggregate demand and therefore the macro-economic environment deteriorate, then SMEs would be lack in orders or maybe stop engenderment or semi-cut-off.

2.1.3 Economic efficiency decremting significantly

According to the survey on proximately 2,000 key enterprises by Ministry of Commerce of China, during the primary a moiety of 2009, average export margin of profit is merely 1.5%, decremting by 6.2%, a component of exporting SMEs facing difficulties, which is especially reflected within the following facts, Firstly, export magnification rate of SMEs lowering as results of sharply truncating overseas orders; secondly, SMEs being at the sting of loss because declining cost of export swap rate can't continue with the appreciation of exchange rate; thirdly, margin of profit of exporting SMEs has been rigorously constricted with the superposition effect of the transmutations of tax refund rates, exchange rates, interest rates, staple prices, labor costs and therefore the monetary policy environment. Since most exporting enterprises of China belong to processing SMEs, already within the cessation of industry value chain, with the impuissant faculty of price transfer, it's arduous for enterprises to hide operational costs through incrementing prices and profit margins of them are further constricted. in buyers' market .

2.2 Opportunities

Despite cyclopean difficulties faced by SMEs, opportunities of development withal come in order that SMEs should seize these opportunities to perpetuate development within the incipient platform.

2.2.1 Opportunities of ecumenical 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 ecumenical 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 a paramount position in the world, second-most sizably voluminous manufacturing great-potency, accounting for 13.2% of that of the ecumenical value, but still far below the 20% quota of the Cumulated States. However, after the hit of financial crisis, the Coalesced States, European Coalescence, 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 indubitably expedite the haste of transfer to developing countries to offset the unpropitious effects on local economy, which will avail expedite 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 caliber. Ergo, after the financial crisis of the industrial structure adjustment, China will invigorate its manufacturing center, and in the near future is liable to supersede the U.S. as the world's most astronomically immense manufacturing base, by which SMEs can get more preponderant portion of international trade in the ecumenical 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, incipient industrial revolution and the core technologies is providing an opportunity of "reshuffle" to avail rearward countries achieve economic development by leaps and bounds through the development of incipient leading industries. The long-term development of export-oriented SMEs in China and the quandaries, (such as the low caliber of technology, mainly engaged in processing trade and low value-integrated products) focusing in the current financial crisis make China's SMEs in an exigent need to conduct industrial upgrading in process. Thus, we must seize the current propitious opportunity to actively undertake the transfer of ecumenical industry and expedite the optimization and upgrading of industrial structure to achieve sound and expeditious economic development, which is bound to provide unprecedented opportunities for the development and innovation of China's SMEs and incipient opportunities for China's industrial and product upgrading.

2.2.3 Opportunities of propitious domestic policies

In order to avail SMEs cope with the financial crisis, in 2008, the central and local regimes of China have adopted a series of policies and measures to secure steady and expeditious development of SMEs, such as ameliorating export tax rebate rate of some labor-intensive products, guiding the SMEs credit guarantee institutions to make more preponderant effort to facilitate the difficulties of engenderment and management for SMEs activating a package of over 4 trillion yuan construction plans to promote economic development. In integration, the commercial banks have adscititiously introduced incipient measures to fortify SMEs' development, such as simplifying procedures of minute business loans, discretely arranging credit scale, satiating the liquidity desiderata 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) Ergo, SMEs should actively capitalize on these policy fortifies and resource to engender conditions for the regime loan assistance, further expand exports and fortify their leading role in driving China's exports.

Approach Culls of SMEs' Participation in International Trade

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

It is often ineffective for SMEs to survive only by the simple strategy to minimize prices owing to their minuscule-scale, low caliber of technology and impotent market capacity. Only if SMEs implement their own innovative strategies, take the way of "diminutive but specialized, specialized but tertiary", manage to boost the integrated value of products, enhance market competitiveness and engender differentiated products, would they dispense difficulties to expand their own market space. Firstly, plenary understand the paramountcy of innovation. Many SMEs do not genuinely agnize the paramountcy of innovation and R & D, customarily putting engenderment and operation income in the first place while ignoring long-term development of enterprises. Consequently, it is much consequential to work out relationship between engenderment and R & D. Secondly, orient the innovation of SMEs to plug demand. R & D and innovation are aimed at better development of SMEs in the future market competition for them to occupy an ascendant position to get more profit. Consequently, all innovation and R & D need to carry out according to the authentic desiderata of the market. Thirdly, obtain innovative technologies outside SMEs through prelude, cooperation and mergers. SMEs can get access to innovative technologies after the correct assessment on the market, its capacity and partners through prelude, cooperation and mergers. (HUANG Bin FANG , 2009)

3.2 Taking the utilization of operating flexibility to seek for incipient market space

Due to less restriction of traditional economic system, SMEs are vigorously interest-driven and market-oriented with flexibility and variability, which request SMEs own a sizably voluminous number of daring entrepreneurs who can thoroughly capitalize on their own strengths and market opportunities to develop their business with the absolute control over companies and affluent industry cognizance. Supplementally, with a vigorous innovation and pioneering spirit, they can expeditiously adjust business decisions to habituate to incipient economic requisites of the times to come into the market areas conventionally ignored by immensely colossal enterprises, as which there subsisting characteristics as short product life cycle, low but stable profits, inadequate market capacity, and minuscule quantity of engenderment. At present, exporting goods of SMEs are mainly distributed in the Coalesced States and Europe, which were deplorably hit by the financial crisis, so SMEs should actively explore incipient markets, actively stepping out the shadow from the financial crisis.

3.3 Thoroughly capitalizing on incipient implements to explore international market space

During the ecumenical economic crisis, facing the situation of shrinking export markets, many SMEs have to tighten expenditure thereby transmuted the traditional sales methods in order to minimize marketing costs, which concerns that SMEs can acquire consummate information expeditiously through e-commerce, greatly truncating the search costs and amending the efficiency of the search; find suppliers on line to truncate purchasing costs and ameliorate the international market competitiveness of products and expand overseas market through probing purchasers on line.

According to "2009 Annual Report on the event of Network enterprises" issued by Alibaba, after 10 years of development, network enterprises of China have gradually realized the mixing with the mainstream of socio-economic system. Till the first a moiety of 2009, the magnitude of China's network enterprises has been expanded to 63 million, with the growing gregarious impact. Thus, SMEs can make utilization of e-commerce to avail enhance mutual exchanges, and to gain more efficacious betokens than traditional betokens of marketing channels to expand the volume of peregrine trade.

3.4 Fixating on evading trade barriers, and actively responding to anti-dumping lawsuits

Since diminutive 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 expeditiously, they

have been exposed to an incrementing number of barriers to trade, anti-dumping lawsuits and astute property litigation. At present, due to the impact of financial crisis on the ecumenical trade, countries are expected to bulwark their own economy by stimulating domestic demand or taking import supersession measures, while most exporting goods of China's SMEs are labor-intensive, low value-integrated and facilely 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 a moiety of 2008 there launched 85 incipient anti-dumping investigations, 37 of which were directed against China's export products, accounting for 43% of the overall quantity. Consequently, SMEs in China should raise cognizance of barriers to trade, and fixate on the harm caused by trade barriers, on the one hand, evading trade barriers through a variety of ways and designates to abbreviate the harm by trade barriers; on the other hand, accentuating on the anti-dumping lawsuits to actively respond to them. And then, each SME should fortify its integration to hedge their jeopardies by the full utilization of the puissance 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 eschew the above-mentioned barriers to trade, but withal to get the fascinates of international competition and to accommodate as a utilizable complement to the expansion of exporting goods. At present, the main force of China's peregrine investment is astronomically immense enterprises, peregrine investment of SMEs is still in its infancy. SMEs should actively carry out peregrine investment, do develop cross-border operations with the utilization of their own advantages.

Conclusion

SMEs' participation in international trade is an intricate systematic project, and can not be solved only by themselves. In face of financial crisis, SMEs should perpetually amend themselves and seek for the space to survive and develop in the environment for changes. Concurrently, the Regime has the responsibility and obligation to provide the obligatory support to avail SMEs survive in difficulties. It is tenable that SMEs will anon be out of difficulties and fundamentally amend the depth and level of participation in international trade with the efforts of both the government's policy support and the engendering faculty of SMEs.

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