

Main issues and countermeasures for the development of small and medium-sized enterprises in China

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Abstract:

This research delves into the primary challenges and strategies faced by Chinese small and medium-sized enterprises (SMEs) across various market contexts. Drawing from a synthesis of both domestic and international literature, the study highlights the prevalent difficulties encountered by SMEs, including funding constraints, market entry, talent acquisition, and technological advancement. Notably, the paper compares and contrasts Shenzhen Huake Technology Co., Ltd., a company in a developed urban setting, with a traditional textile firm in a less developed western county, examining their distinct challenges. The findings suggest that while both types of enterprises grapple with financial and technological hurdles, urban enterprises tend towards innovation-driven growth, whereas those in underdeveloped areas are often hindered by inadequate infrastructure and market limitations. To address these issues, the study proposes several approaches, such as bolstering technological innovation, creating adaptable supply chains, building brand identity, and proactively meeting diverse consumer demands. The research also emphasizes the critical role of green and sustainable practices in the future trajectory of SMEs. SMEs are encouraged to leverage digital tools and global opportunities while remaining attuned to local market needs and peculiarities.

Keywords: SME Development, Market Environment Variation, Challenges and Strategies, Technological Innovation

1. Introduction

In the global economy of today, small and medium-sized enterprises (SMEs) play a pivotal role in driving innovation, employment, and growth. As the second-largest economy in the world, China heavily relies on its SMEs for economic restructuring, innovation, and job creation. These enterprises contribute to over 60% of China's GDP and provide about 80% of its employment, highlighting their critical role in the nation's economic advancement. However, Chinese SMEs face significant challenges that hinder their growth potential. Funding issues represent a significant barrier. According to the China Banking Association, more than 60% of SMEs encounter financing difficulties, coupled with high costs, adversely affecting their capacity for innovation and expansion.

The access to markets and competition pose additional challenges. In industries with high entry barriers, SMEs often struggle to secure market share and maintain their competitiveness. According to the China Federation of Industry and Commerce, about half of the SMEs view market entry barriers as a significant obstacle to their development. Moreover, talent recruitment and development present significant challenges. Despite the

abundant talent pool in China, SMEs struggle to attract skilled professionals, particularly in technological and innovative sectors. Over 70% of SMEs report that talent shortages hinder their growth.

This paper aims to provide a comprehensive analysis of the fundamental challenges faced by China's SMEs, suggest feasible solutions, and compare different market conditions. These insights aim to assist SMEs in overcoming these challenges and achieving sustainable growth. The study focuses on areas such as policy, innovation, talent, and financing, offering strategic recommendations to unleash the potential of Chinese SMEs in contributing to economic development and innovation.

2. Main Issues in the Development of Small and Medium-sized Enterprises in China

2.1 Funding Challenges and Market Access

Funding issues significantly constrain SMEs in China. Limited financing channels, high costs, and inadequate credit are prevalent problems. The China Banking Association highlights that about 70% of SMEs, particularly private and innovative ones, encountered

financing difficulties in 2020. Around 60% of SMEs perceive financing costs as high, adversely affecting their liquidity and profitability, which in turn restricts their ability to expand production and invest in R&D.

Simultaneously, SMEs face substantial barriers in market access and competition. According to the China Federation of Industry and Commerce, approximately 50% of SMEs consider market entry barriers as a major hindrance, especially in sectors needing significant technological investment. Furthermore, more than 60% of SMEs report increased competitive pressure from larger enterprises, often resulting in price wars and decreased profit margins.

2.2 Talent Recruitment and Technological Challenges

Recruiting quality talent, particularly in tech and innovation sectors, is another challenge for SMEs, despite China's vast talent pool. The Ministry of Human Resources and Social Security reports that talent shortages affect over 70% of SMEs, hindering their ability to compete with larger companies in technology and innovation.

Regarding innovation and technological advancement, essential for SMEs' growth, many struggle in these domains, impacting their market competitiveness. The Ministry of Science and Technology states that only about 20% of SMEs actively engage in innovation, implying limited capabilities in new product development and process improvement for the majority. Additionally, the lack of sufficient funding and resources for technological upgrades makes it challenging for most SMEs to adapt effectively to evolving market demands.

3. Classification of market environment

3.1 Market environment of developed cities

Developed cities, serving as economic and cultural hubs, provide SMEs with modern facilities, robust infrastructure, and diverse markets. Cities like Beijing and Shanghai offer a plethora of opportunities and resources for innovation, hosting numerous corporate headquarters and research institutions. However, the competitive landscape in these cities escalates living and operating costs, necessitating greater strategic and managerial acumen from SMEs. Elevated property values and stringent financial regulations lead to increased financing costs. Additionally, consumers' high standards require superior product and service quality.

Despite these challenges, the benefits for SMEs in developed cities are substantial. The advanced technological infrastructure and abundant talent pool

support entrepreneurial and innovative activities. Government policies in these cities often back SMEs through tax incentives and financial support, creating a growth-friendly environment. Collaborations with larger enterprises and academic institutions open new opportunities and avenues for technological advancements.

3.2 Market environment in underdeveloped regions

In contrast, underdeveloped regions offer a market environment distinct from that of developed cities. These areas, despite lagging in infrastructure, technological innovation, and resources, possess immense potential in their markets and natural resources. For example, the western and central regions of China, despite economic underdevelopment, are rich in natural resources and labor, thus attracting investors and businesses.

Nonetheless, these regions present unique challenges. Inadequate infrastructure may increase operational costs, and limited access to technology is a common issue. The typically lower local consumption levels require businesses to adopt flexible pricing and product strategies. Moreover, the potential absence of a robust legal and business framework can lead to operational uncertainties and risks, such as local protectionism, funding challenges, and talent shortages.

However, these regions also present unique opportunities. Lower market competition allows for greater market space and strategic freedom for new entrants. Local governments often extend incentives like tax reliefs and financial aid to stimulate investments. Although consumer spending power is generally lower, the distinct needs and preferences of these areas provide opportunities for innovation and product differentiation. Despite the challenges, underdeveloped regions hold significant prospects for business growth, thanks to their untapped markets and resources.

4. Comparative analysis of cases

4.1 Cases of small and medium-sized enterprises in developed cities

Shenzhen, a special economic zone in China, has rapidly evolved into a high-tech and innovation hub. The city's favorable policies have attracted a plethora of entrepreneurs and technical experts, creating a vibrant environment for technological advancement. In this milieu, Shenzhen Huake Technology Co., Ltd., a SME focused on high-tech, has thrived by leveraging local resources and collaborating with universities and research institutes, dedicating itself to advanced technology R&D.

Huake Technology's R&D investment exceeds 20% of its expenditure, significantly higher than the national average, reflecting its commitment to technological innovation. This investment has not only fostered continuous technological advancement within the company but also positioned it as a market leader in certain tech domains, earning numerous patents. The company's R&D team, comprising multi-disciplinary experts, focuses on converting research into tangible products and services.

Benefiting from Shenzhen's rich innovation ecosystem, Huake Technology's partnerships with top universities and research institutions have been instrumental in driving forward its R&D projects. These collaborations have provided the company with crucial technical support and opened up expansive market opportunities. Through these partnerships, Huake Technology stays abreast of emerging tech trends and cultivates a skilled talent pool, laying a robust foundation for its long-term growth.

Established in 2013 in Jianggan District, Hangzhou, Huoquan Technology Co., Ltd. is a limited liability company focusing on technology development in computer software, hardware, and electronic products. Led by Lu Yiwei, the company is located at No. 30 Qinfeng Road and offers a range of services including technology development, consultation, and system integration, along with wholesale and retail of tech products.

In Zhejiang Province's competitive tech sector, Huoquan Technology stands out among over 10,000 companies due to its deep tech expertise, dynamic team, and adaptable market strategy. It excels in providing cutting-edge tech solutions and services, particularly in computer system integration and network engineering, garnering customer acclaim and a strong market reputation. Huoquan Technology's growth is bolstered by strategic partnerships across various tech domains, enhancing its market scope and competitiveness. This approach has not only stabilized its market position but also bolstered its brand influence in a fiercely competitive environment.

4.2 Cases of small and medium-sized enterprises in underdeveloped areas

This decades-old traditional textile company in a western county has long held a solid market share and brand recognition due to its unique craftsmanship and regional traits. However, with evolving times and market shifts, the county's limited resources in technological innovation have become a hurdle for the company's growth. Increased globalization and domestic competition further eroded its market standing.

Adapting to these market changes, the company faced challenges in modernizing its products and methods to align with contemporary consumer demands.

Transformation and upgrading, while crucial, proved difficult due to longstanding reliance on traditional practices. The company struggled with a lack of technical support, as access to advanced textile technology was limited in the resource-scarce county. Additionally, financing constraints impeded its ability to enhance production and foster innovation. While having some capital reserves, relying solely on internal funds was insufficient for the required expansion and modernization in the competitive market.

Located in a western county, this traditional agricultural company, with its rich history and expert agronomy, has long held a strong position in the local market. Its products, known for their natural purity, have consistently garnered consumer trust. Yet, the advancement of scientific agriculture and modern distribution methods are reshaping the agricultural landscape. The county's inability to keep pace with modern agricultural developments has left the company facing significant expansion and upgrading challenges. The traditional sales model is struggling under the pressures of globalization and e-commerce.

Adapting to contemporary market demands for healthy, safe, and efficient food requires the company to embrace modern technology in both production and sales. This transition, however, is challenging as it entails altering deep-rooted traditional farming practices and facing manpower and material resource hurdles. Furthermore, the company's location in a technologically and financially underdeveloped county adds to the difficulty in accessing necessary technological innovation and external funding, creating additional barriers compared to urban enterprises.

5. In-depth comparative analysis

5.1 Common issues

In the evolving economic and technological landscape, enterprises across different regions and industries face unique challenges and opportunities. Despite these variations, deeper analysis reveals several common issues. These often stem from shifts in macroeconomic policies, market dynamics, changes in consumer demand, and technological advancements. Recognizing these commonalities is crucial for systematically understanding economic phenomena and offers valuable insights for policymakers and business leaders.

A key issue is the challenge of technological innovation and financing. Enterprises, regardless of size and location, contend with limited technical support and financial resources, hampering their capacity for R&D and expansion in today's innovation-driven economy. Additionally, market competition and its evolution pose universal challenges. Intensifying globalization

forces local enterprises to confront both domestic and international competitors, while rapidly changing consumer preferences demand agile adaptation in products and services. Furthermore, businesses must continually adjust their strategies in response to policy and regulatory changes across environmental, taxation, and industrial domains.

These shared challenges not only highlight common economic trends but also provide new perspectives for problem-solving. Policymakers can use this understanding to formulate precise, effective policies, while business leaders can better strategize, balancing response measures with opportunity exploration. For example, when faced with technological and financial hurdles, enterprises might seek collaborations, strengthen university-industry ties, or pursue government support. Thoughtfully addressing these common issues is key to understanding economic trends and developing impactful strategies.

5.2 Differences and causes of problems in the market environment

Market environments, which include consumer demand, competition, government policy, and cultural factors, present a range of challenges and opportunities for businesses. Developed urban areas, marked by high technology, consumer spending, and competition, require companies to continuously innovate and respond to market changes. This necessitates a focus on differentiated products and rapid adaptation to changing consumer needs. In contrast, businesses in underdeveloped regions often face technical and financial constraints, smaller market sizes, and lower consumer purchasing power. However, these areas usually have less competition, offering more space for market growth and expansion.

Variations in these market environments largely arise from differing levels of economic development. Developed cities offer enterprises more comprehensive infrastructure and resources, enabling better technical and financial support. On the other hand, enterprises in less developed areas, constrained by long-term economic and resource limitations, encounter more significant development challenges. Cultural and social structures also importantly influence consumer behavior and business strategies. For example, some regions may prefer local brands, while others prioritize value for money. Additionally, government policies and regulations significantly shape market conditions, with some areas providing more favorable business environments and tax incentives for growth.

5.3 Opportunities in different market

environments

In developed markets, high consumer demand and advanced technology present unparalleled opportunities for enterprises. The prevalent consumer culture there facilitates the acceptance of new products, encouraging businesses to innovate and quickly adapt to meet evolving consumer preferences. These markets, often at the forefront of technological innovation, enable companies to leverage advanced resources and R&D for emerging trends like AI, IoT, and biotechnology. Moreover, their sophisticated financial systems offer robust support for corporate financing and growth.

In contrast, underdeveloped regions offer distinct opportunities, such as the chance to establish brand influence and market share in less competitive environments. Early entrants in untapped sectors can achieve a “first-mover advantage.” Additionally, these markets hold significant potential in sectors like infrastructure, education, and healthcare, which are often supported by government investment incentives.

Cross-cultural and regional differences also present a variety of opportunities. Companies can tailor their products and services to cater to the unique consumption patterns and values of different areas. For instance, while some regions may value the traditional aspects of products, others might prioritize innovation. This diversity is beneficial for creating unique brand narratives and establishing global reputations.

In summary, understanding and adapting to the different market environments is crucial for businesses to capitalize on specific opportunities, whether in developed or underdeveloped areas. Success in these diverse settings hinges on accurate analysis of market trends, a deep understanding of consumer needs, and strategic flexibility.

6. Conclusion and outlook

6.1 Summary of main issues and challenges

In today’s globalized business environment, companies not only face challenges from domestic competitors but also from international rivals. Globalization requires companies to adjust their strategies and positions to adapt to shifting market demands and global competition. At the same time, rapid technological progress necessitates continual upgrades and innovations in production, sales, and management. However, integrating new technologies into existing operations and training staff for adaptation present distinct challenges.

Consumer demands have become increasingly diverse and dynamic, fueled by widespread access to information via the Internet and social media. This complexity in

consumer behavior requires companies to engage in comprehensive market research and continually update their products and services. Responsiveness and strategic adaptability are essential to navigate these rapidly evolving consumer preferences and market uncertainties.

As businesses grow and operations become more complex, financing and talent acquisition emerge as critical bottlenecks. In the competitive capital market, securing stable and cost-effective financing is a significant challenge. Moreover, in the knowledge-driven economy, attracting and retaining skilled talent, along with effective talent management and training, is paramount for businesses to sustain growth and competitiveness.

6.2 Prospects for the future development of small and medium-sized enterprises

In the future, SMEs will increasingly depend on digital technologies and AI, moving away from traditional production and business models. This shift will require technological upgrades in products, services, and management. For instance, integrating smart production lines and automation can enhance efficiency and reduce costs. Utilizing big data and AI, SMEs can gain a better understanding of market demands and consumer preferences, leading to more effective strategies.

Environmental concerns and sustainable development are becoming increasingly important, posing challenges and opportunities for SMEs. By adopting green practices and offering eco-friendly products, SMEs can not only meet government and market demands but also build a green brand image and attract eco-conscious consumers. Participating in green initiatives can also foster cooperative relationships with governments and communities, providing additional resources and support. In a globalized world, SMEs need to navigate a complex market environment, balancing international expansion with catering to local consumer preferences. This dual approach of globalization and localization is crucial. SMEs must adapt to compete internationally while maintaining a strong presence in local markets to secure their position.

6.3 Suggestions and coping strategies

SMEs need to enhance their innovation capabilities by increasing investment in R&D. In the rapidly advancing technological landscape, relying solely on imitation is not enough for long-term success. Collaborations with educational and research institutions can promote innovation and talent development. Government support, in the form of tax breaks and financial subsidies, can also encourage SMEs to pursue innovation.

To manage market uncertainties stemming from

globalization, SMEs should develop flexible supply chains to ensure production stability. This includes establishing long-term cooperative relationships with multiple suppliers and using digital technology to optimize the supply chain. Diversifying market presence can reduce reliance on a single market, mitigating risks and opening new avenues for growth.

In competitive markets, SMEs should focus on building their brand and enhancing brand value and visibility. This requires providing high-quality products and services, establishing a good reputation, and conducting effective brand promotion and marketing activities. Additionally, SMEs should strengthen relationships with consumers, listen to their needs and suggestions, provide customized services, and establish a stable consumer group.

In conclusion, SMEs can thrive amidst intense market competition through technological innovation, market diversification, brand development, and strong collaborations with various stakeholders.

7. Limitations of the study and further research directions

7.1 Limitations of this study

This study, while providing valuable insights into SME development, is subject to certain limitations. The data used may not be comprehensive, potentially leading to biases in the analysis. Limitations in the number of cases or samples, due to time and resource constraints, could affect the generalizability of the findings. Additionally, the specific characteristics and preferences of the selected research subjects might limit the study's broader applicability.

Methodological and theoretical rigor was pursued, yet some limitations are inherent. The statistical methods or analysis tools used might not fully eliminate subjectivity, affecting the accuracy of the results. The theoretical framework, while robust, might have overlooked certain phenomena, potentially omitting key issues. These limitations highlight the need for future refinement and deeper exploration in subsequent research.

7.2 Suggestions for further research

Future research should expand the scope of data collection to include a wider range of regions, industries, and time periods. This would not only provide a richer set of research materials but also help in verifying the stability and universality of the current study's findings. With the rapid evolution in technology and market environments, future studies should explore new challenges and opportunities facing SMEs, such as digital transformation, green development, and the reorganization of global

supply chains.

It is recommended that future research employ a combination of various methods, including qualitative research, experimental methods, and big data analysis, to gain more comprehensive and in-depth insights. Collaboration with researchers from other disciplines, such as data science or social psychology, can bring new perspectives to the study of SMEs. Emphasis on field research and case studies will ensure the practical significance and application value of the research, catering to the unique characteristics and diversity of SMEs.

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