

Business on the brink, SMEs say

Small companies not expecting any profits in the next six months as market environment is worse than during the 2008 financial crisis, survey finds

Ed Zhang in Beijing
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Despite repeated central government pledges to help small and medium-sized enterprises, many SME owners say business is now worse than during the depths of the global financial crisis in 2008.

A recent survey by e-commerce firm **Alibaba.com** ([SEHK: 1688, announcements, news](#)) and the National School of Development at Peking University found that 72 per cent of SME owners in the Pearl River Delta believe they will make no profit or even small losses in the next six months, while 3.3 per cent expect to go out of business.

The survey covered about 3,000 SMEs in Guangdong's manufacturing heartland.

SMEs reported average profits had shrunk by 30 to 40 per cent from last year. With material and labour costs on the rise, they cannot sustain profits by building stronger brands and using better technologies.

Rising costs were listed as the biggest problem by 72 per cent of respondents.

In the garment industry, costs rose as much as 80 per cent in the past year, the survey found.

Higher wages were another challenge, with the general level having risen 20 to 30 per cent. As skilled workers constantly sought higher offers, the employee turnover rate rose to 52 per cent.

With overseas orders falling, due partly to competition from countries with lower wages, the companies said they were operating at an average of 71 per cent production capacity.

Credit supply was another concern, with 53 per cent never having had any experience in raising capital from sources other than private lenders.

Commenting on the survey's findings, Professor Zhou Qiren, dean of the National School of Development, said the tightening of monetary policy was posing a serious challenge to the management of specific enterprises.

He said the government should reform the interest rate system so that more loans could be provided to SMEs with higher credit ratings.

SMEs should focus on cost control and developing competitive products for the domestic market.

Many SMEs rely on private moneylenders for loans, but with large state-owned banks leading a general tightening of credit supply, small moneylenders are in crisis.

Reports have been spreading about heavily indebted business people from Wenzhou shutting down their factories and going into hiding after failing to pay their workers. The Yangtze River Delta city in Zhejiang province was renowned for its large number of private enterprises.

There have also been calls for Wenzhou's underground moneylenders - privately run and unregistered - to be legalised so that the whole credit market can be monitored and regulated.

The State Council on Wednesday pledged stronger financial and fiscal support to small businesses by reducing their tax burdens and encouraging banks to increase loan support for them. It said lending to small firms whose credit lines were below 5 million yuan (HK\$6.09 million) should grow at a rate no lower than the average loan growth of banks.

Hou Yunchun, a deputy director of the State Council's Development Research Centre, has said that SMEs make up 99 per cent of all companies on the mainland, provide more than 80 per cent of urban jobs, develop 70 per cent of the nation's total patents, and contribute 60 per cent of its gross domestic product and 50 per cent of its tax revenue.

Figures from the State Administration for Industry and Commerce show there were nine million private enterprises employing 98 million at the end of June. In addition, there were 36 million self-employed people providing 73 million jobs.

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