

The composition and countermeasures of MSMEs salary during the COVID-19 outbreak in Shanghai, China

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ABSTRACT

This paper aims to explore the problems on the composition and countermeasures of MSMEs Salary during the COVID-19 outbreak. The company enterprise is selected as the analysis object on behalf of the MSMEs. In theory, by querying the relevant literature, it lays a theoretical foundation for the study through the on-site survey, to understand the collection of the relevant data of some shanghai MSMEs, using questionnaire survey and statistical analysis to analyze some Shanghai MSMEs' salary problems in management. The analysis results show that the salary management of some Shanghai MSMEs are unreasonable, the employee satisfaction is not high. The results indicate that most of the participating enterprises have been severely affected and they are facing several issues such as financial, supply chain disruption, decrease in demand, reduction in sales and profit, among others. Besides, over 70% of enterprises were neither prepared nor have any plan to handle such a situation. Therefore, the salary of the company fluctuates in different ranges.

Keyword: COVID-19, MSME, salary satisfaction, supply chain, financial profit

1.0 BACKGROUND

1.1 Shanghai MSMEs

Shanghai, the largest city in China, is one of the four centrally-administered municipalities. It is the economic, financial, trade and shipping center of mainland China. Shanghai has created and broken a number of the world's highest and China's highest by the China World Record Association. Atkeson (2020) Today Shanghai is not only an important technology, trade, financial and information center in China, but also a gathering place of world culture. Shanghai has developed into an international metropolis. And is committed to building into an international financial center and shipping center (Glover et al., 2020).

Shanghai, as a national "economic center", is my country's largest industrial, financial, foreign trade and shipping center city. Due to the impact of COVID-19 in 2022, more than 24 million people in Shanghai have been shut down for more than a month. With the longer and longer

lockdown, the impact of the Shanghai epidemic on the whole country has become more and more obvious. Many financial institutions predict that China's economic growth rate will fall short of the official target of 5.5% this year, mainly because of the impact of the epidemic.

From the perspective of the impact on the national fiscal revenue, Shanghai contributed 3.78% to the national GDP last year, while the GDP growth target for the whole of China in 2022 is only 5.5% (Dai et al., 2020). Whether this expectation can be achieved or not depends on the Shanghai epidemic. Among the 34 provincial-level administrative units in China, only 5 have really made net input to the central government in the past year, and Shanghai ranks second after Guangdong Province. Many provinces need to rely on subsidies from central transfer payments (Lasak et al. 2019). Last year, Shanghai's net tax paid to the central government was 929.4 billion yuan, accounting for one-tenth of the total central transfer payments. For the whole country, Shanghai can be called a "cash cow", and the impact on the national economy is huge after the shutdown (Fang et al., 2020). MSMEs refer to enterprises legally established within the territory of the People's Republic of China with relatively small scale of personnel and operations, including medium-sized enterprises, small enterprises and micro-enterprises. Such enterprises can usually be funded by a single person or a small number of people, and their number of employees and turnover are not large, so most of them are directly managed by the owner in operation, and are subject to less external interference. Shanghai MSMEs are important carriers for mass entrepreneurship and innovation (Fang et al., 2020). They play an irreplaceable role in increasing employment, promoting economic growth, scientific and technological innovation, and social harmony and stability, and are of great strategic significance to national economic and social development.

1.2 Shanghai economic industry

In March 2022, China entered a new round of outbreaks. At present, the new epidemic situation in Shanghai is serious, with tens of thousands of confirmed cases for several consecutive days, and the whole of Shanghai is in a state of comprehensive lockdown. According to 2020 data from the China Bureau of Statistics, Shanghai's semiconductor and automotive industries account for one-tenth of the national industry share, and the 3C, chemical, and steel industries also account for a certain proportion. The outbreak of the Shanghai epidemic has seriously affected the manufacturing companies located in Shanghai, and it will also have a considerable impact on China's manufacturing industry, especially the semiconductor and automotive industries (Fang et al., 2020).

Under the impact of the first wave of the epidemic in 2020, Wuhan was closed for 76 days, resulting in a direct economic loss of 200-250 billion, and a cliff-like decline in GDP growth, from 7.4% higher than the Chinese average in 2019 to 2020 in the first quarter of -40.5%, with an annual GDP of 1,561.6 billion yuan, down 4.7% year-on-year, making it the only city in China to experience negative growth in 2020. In contrast, in 2021, Shanghai's GDP will exceed 4.3 trillion yuan, ranking first among Chinese cities. (Glover et al., 2020) The current round of epidemic closure and control in Shanghai at the end of March has continued to this day. The impact of restricted production activities on the economy is self-evident, and Shanghai's economic operation in the first half of 2022 will be under considerable pressure.

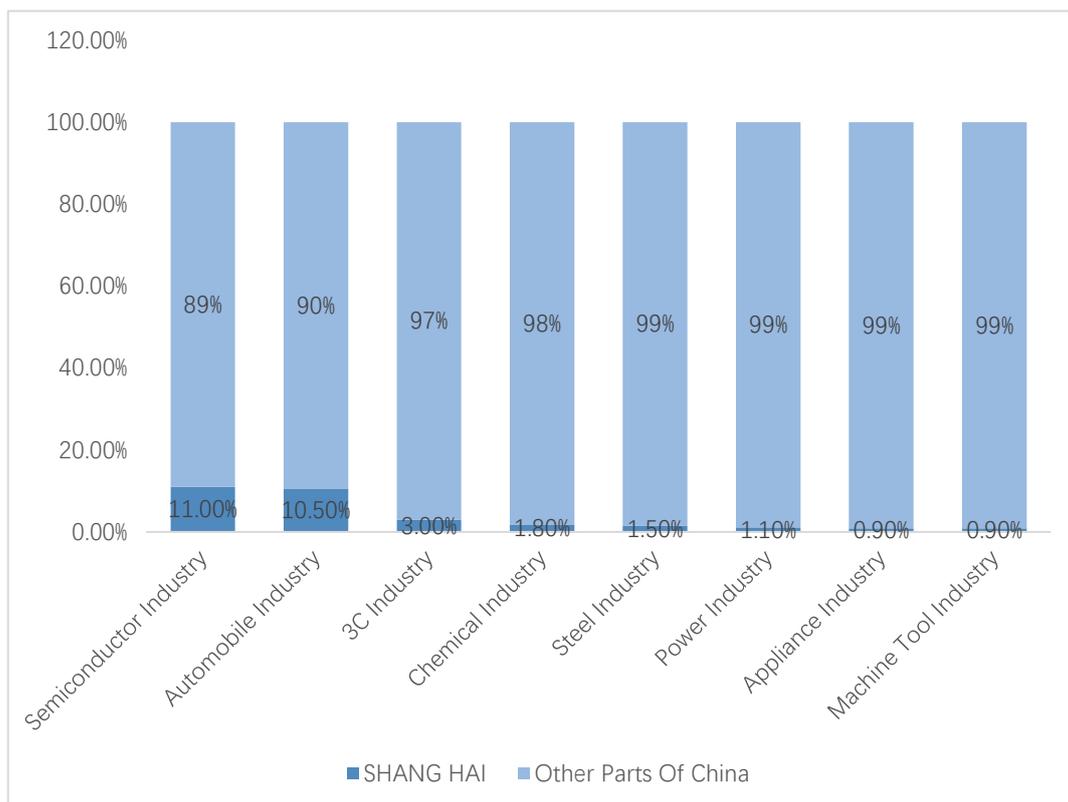


Figure 1 : The proportion of major industries in Shanghai's manufacturing industry in China in 2020.

1.3 Business economic impact

Shanghai has the world's largest container port, Shanghai Port, and its annual foreign trade throughput accounts for one-fifth of the country's major coastal ports.(Glover et al., 2020) Affected by the epidemic now, the operation of container cargo in Shanghai is not optimistic. Although the Shanghai closure and control does not close the port, the Shanghai port maintains 24-hour operations, and the overall shipping is normal, but this closure and control puts all the pressure on land transportation. During the closure and control period in Shanghai, container truck freight is basically in a "semi-paralyzed state". Port workers and truck drivers are not as smooth as before, and it is difficult for non-local vehicles to enter Shanghai. The export trade of the whole country has been affected. In addition, logistics vehicles in Shanghai are controlled by the whole country, which has also adversely affected the development of Shanghai's manufacturing enterprises in the domestic market. At the same time, the composition of enterprise salary has also changed.(Azadegan, A., Syed, T. A., Blome, C., & Tajeddini, K. (2020))

Shanghai is not only the largest economic city in China, but also one of the areas with the highest concentration of high-tech industries in China. As the capital of chips, Shanghai is an important center of electronic foundry, wafer foundry, packaging and testing production, and many companies such as Quanta, TSMC, SMIC, Hua Hong Semiconductor, UNISOC, ASE, etc. Since the outbreak of the Shanghai epidemic, according to the public statements of various

companies, TSMC, SMIC, Hua Hong Semiconductor, ASE, etc. have all implemented closed production, trying their best to ensure uninterrupted chip production capacity. However, due to the impact of the closure and control, the pressure on companies to ship products has increased. These companies are faced with a shortage of truck drivers for distribution and cannot deliver the output chips to customers.

After the implementation of closed control in Shanghai, Tesla, a major factory, stopped production and announced that it will suspend production activities at the Shanghai factory from March 28, 2022. Until now, the Shanghai Tesla Super Factory has not resumed production. It is understood that Tesla's Gigafactory in Lingang and it is mainly engaged in the production of Model 3 and Model Y, while supplying the two major new energy vehicle markets in China and Europe. According to its official website, the current time for Tesla to pick up the car in China is 20-24 weeks. With the extension of the shutdown time, it will definitely cause extreme tension in Tesla's production capacity, which may lead to the new car delivery time again. Growth, supply chain pressure is self-evident (Azadegan, A., Syed, T. A., Blome, C., & Tajeddini, K. (2020). In addition, it should be noted that Tesla's Berlin plant has already been put into production, and domestic industrial orders may be transferred overseas due to the impact of the Shanghai epidemic.

1.4 Populations income

After the outbreak of the new crown epidemic in Shanghai, although the Shanghai region has further prevented and controlled the new crown epidemic by means of control zones, the effect of such prevention and control is not good. After that, although the Shanghai area did not close the city, Shanghai has also implemented stricter epidemic prevention and control measures. Mainly because various economic activities under the epidemic control will stop directly. This will not only affect the economic activities of many companies, but also lead to further shocks to people's income levels. Under such circumstances, the closure and control of the epidemic may lead to billions or even tens of billions of economic losses in the relevant regions. The past few years have undoubtedly been a financial and spiritual blow to ordinary companies and individuals (Azadegan, A., Syed, T. A., Blome, C., & Tajeddini, K. (2020).

During the epidemic, there are various attitudes to resume work, working from home and on-the-job status, and the salary payment standards of enterprises are not uniform. Different circumstances have different payment standards for patients with new coronary pneumonia, suspected patients, and close contacts. During the isolation treatment period and the medical observation period: normal payment of wages. Employees who cannot provide normal labor due to the isolation measures implemented by the government should be paid normally in this case (China Economic News 2020). Note that this is a situation caused by the government's implementation or measures. If the employees themselves request home isolation, or do not want to return to work, this is not the case. This is also the case for employees who are on care leave. However, the nursing leave must be repaid, and enterprises can comprehensively adjust and use the rest days in 2022, and enterprises can arrange to work on rest days after 2022. For those returning to work and employees working from home, enterprises should take the initiative to communicate with employees. Companies with conditions can arrange for

employees to work from home through flexible working methods such as telephone and Internet to complete work tasks. For companies that do not have the conditions for telecommuting, they can negotiate with their employees (Krueger et al., 2020).

Use paid annual leave, company-provided welfare leave and other types of leave. For employees who self-isolate at home or apply for an extension to return to work, the company arranges employees to work from home and pay wages as normal. If the company does not have the conditions to arrange for employees to work from home, priority will be given to annual leave, and wages will be paid normally during the annual leave. After the annual leave has been arranged, and if you want to continue to postpone the return to work, the measures that can be taken include: negotiating and agreeing to be on the job, and clarifying the salary during the waiting period. The employee applies for personal leave, and there is no salary during the personal leave. The unit comprehensively adjusts the use of rest days in 2022 and pays it normally wages, and arrange employees to work on subsequent days off (Krueger et al., 2020).

If the company suspends production, and arranges employees to be on duty, they need to be paid normally within one wage payment cycle, and if the wage payment cycle exceeds one wage payment cycle, basic living expenses will be paid. That is to say, if the unit arranges employees to suspend work, the wages of the first month still need to be guaranteed and paid normally; starting from the second month, they will be paid at no less than 70% of the minimum wage. If the enterprise has not stopped work but has difficulties in production and operation, it can reduce the salary after negotiation with the employees. For enterprises that have difficulties in production and operation due to the impact of the epidemic, enterprises are encouraged to negotiate with employees through a democratic process of negotiation to stabilize jobs by adjusting wages, rotating jobs, and shortening working hours. For those who are temporarily unable to pay wages, enterprises should be guided to negotiate with trade unions or employee representatives to delay payment, and trade union organizations at all levels should actively provide assistance to help enterprises reduce the pressure on capital turnover.

2.0 CURRENT ISSUES

Focusing on China, the huge impact of the epidemic on the Chinese economy is likely to extend from the short-term to the medium-term due to the significant downside risks to China's exports caused by the marked global economic slowdown. According to data released by the National Bureau of Statistics of China on March 16, the value-added, investment and consumption of China's above-scale enterprises fell by 13.5%, 24.5% and 20.5% year-on-year respectively from January to February, and the unemployment rate reached 6.2%. (Abo Murad, M., Al-Kharabsheh, A., & Al-Kharabsheh, A. (2021).

The outbreak has had a major impact on human life safety and global economic development. Chinese enterprises are also facing huge challenges in epidemic prevention and control. Due to the needs of epidemic prevention and control, the production and operation activities of enterprises are restricted, and short-term operations are at risk.

The outbreak has caused companies to face pressures such as tight cash flow, supply chain disruption, and a general decline in market supply and demand. (China Economic News 2020) Most companies expect their revenue to drop significantly in the first half of the year. 1/3 of the company's cash flow bearing period is less than 1 month. In the relevant reports on the cash flow bearing period of the companies surveyed, more than 30% of the enterprises have a period of less than one month, and less than 10% of the enterprises have a maintenance period of more than 6 months. The overall expectation of small and medium enterprises is lower than that of large and medium enterprises. At the same time, due to factors such as survey objects, survey time, etc., the results of survey reports vary greatly.

Employee wages, loan repayments, and rental expenses are the main cost pressures for business operations. Especially for small and medium-sized enterprises, paying employee wages has become the biggest cost pressure. 50%-60% of small and medium-sized enterprises are facing the pressure of paying staff wages, the proportion of enterprises facing the pressure of loan repayment is between 13%-38%, and the proportion of enterprises facing the pressure of rent expenditure is between 13%-16%. In contrast, employee wage pressure in large companies is relatively low, with less than 30% of large companies citing it as a major pressure. The interviewed SMEs said that if the impact of the epidemic continues to spread, they will take measures such as layoffs and salary cuts to ease cost pressures. Large enterprises, on the other hand, believe that the epidemic is a temporary impact and will not adopt strategies such as layoffs and salary cuts.

In the short term, the impact of supply chain disruptions on MSMEs is relatively low. (China Economic News 2020) Among small and medium-sized enterprises and large enterprises, the proportion of enterprises that believe that supply chain disruption is the main pressure is about 20%. China's epidemic prevention and control and multinational traffic control have a huge impact on the global supply chain, especially industries with a high degree of globalization and high segmentation of supply chains, such as automobile manufacturing and textile industries, are more affected by supply chain disruptions.

The slowdown in market demand is the main pressure facing companies. According to data released by the National Bureau of Statistics on March 16, the added value, investment and consumption of China's industrial enterprises above designated size fell by 13.5%, 24.5% and 20.5% year-on-year respectively from January to February. The proportion of enterprises choosing "slowing market demand" as the main pressure is the highest, with 40%-55% of enterprises facing this pressure. The interviewed small and medium-sized enterprises generally face the problem of reduced market sales, original orders have been delayed or cancelled, and new orders cannot be obtained in the short term. With the progress of resumption of work and production, production problems will be solved, and market sales problems will become more prominent. (Sci. Total Environ., 751 2021) The top 1/3 of companies expect operating income to halve in the first half of 2022. The production and operation of small and medium-sized enterprises have been seriously affected by the epidemic. As many as 30% of companies expect first-half revenue to fall by more than 50% year over year. According to the survey results of the China Association of Small and Medium Enterprises on February 15, as of February 14,

38.9% of enterprises reported that operations were temporarily suspended, 29.43% of enterprises reported that the epidemic would lead to losses, and 18.13% of enterprises reported that operations were barely maintained.

The degree of impact on the secondary industry can be reflected in electricity consumption and market sales and depends on the speed of resumption of work and production. According to the information released by the National Energy Administration of China, from January to February 2022, the total electricity consumption of the whole society was 1,020.3 billion kWh, a year-on-year decrease of 7.8%, of which the electricity consumption of the secondary industry was 622.1 billion kWh, a year-on-year decrease of 12%.

WeBank's Lanyue intelligent asset management team used satellites to monitor the activity of ships in major ports across the country, and compiled a port activity index of 10. It found that compared with last year's Spring Festival, port throughput recovered slowly this year, and only recovered in the third week after the festival. to the 80% level, down from a year earlier, reflecting losses in export manufacturing. According to statistics, from January to February, the total retail sales of consumer goods across the country fell by 20.5% year-on-year. Among the bulk durable consumer goods, sales of automobiles fell by 37% year-on-year, furniture fell by 33.5%, building materials fell by 30.5%, and home appliances fell by 30%. Xinjie Garment, a small and medium-sized enterprise in the textile industry, said that the biggest pressure comes from the reduction of market orders, and there is also a certain pressure on labor costs. Revenue fell more than 50% year over year.

Industries with crowd gathering as the main scenario are facing huge challenges, and online industries, such as digital media, e-commerce and online education, have released their potential for "contrarian" development. Among the tertiary industries, tourism and catering are the most severely affected. According to the calculation of the China Tourism Academy, due to the impact of the new crown pneumonia epidemic, it is expected that in the first quarter and the whole year of 2020, the number of domestic tourists will increase by 56% and 15.5% respectively, and the number of tourists will decrease by 932 million year-on-year; the domestic tourism revenue will increase by 20.6%. The revenue decreased by 1.18 trillion yuan; the number of outbound tourists in the first quarter and the whole year recorded a negative growth of 42.6% and 17.6% respectively, a decrease of 27.63 million in the whole year compared with the previous year. According to the catering industry research report released by Meituan, 72.5% of the catering chain stores said that the losses were very large. Ninety percent of catering businesses are facing a shortage of funds.(State Council 2018)

The digital economy has accelerated during the pandemic. WeBank's Lanyue Intelligent Asset Management team used the attention of mainstream Internet platforms to produce online application and industry public opinion index 16, reflecting the industry's prosperity and development trend. According to the calculation, it is found that online office, online education and online games have increased significantly, reaching 537%, 169% and 124%. (forthcoming 2022).

3.0 CONCLUSION

MSMEs account for more than 96.8% of the enterprises in China. The COVID-19 outbreak has had a greater impact on Chinese MSMEs. Furthermore, micro-enterprises or self-employed persons are more vulnerable to such a crisis. More than 50% of these businesses are already vulnerable. Micro businesses have been disproportionately affected by the COVID-19 outbreak and restrictions on business closures. Additionally, companies with very low cash reserves are vulnerable and may not survive the ongoing COVID-19 outbreak. Based on the research results, different policy recommendations are put forward to reduce the burden on SMEs. These include protecting employees and information accuracy, boosting the economy, providing income and employment support for MSMEs, planning, building resilience and positive social relationships. Nonetheless, our study provides profound theoretical and practical implications for the impact of COVID-19 on MSMEs. In addition, the social and economic consequences of the COVID-19 outbreak have created new challenges to protect the health and safety of employees and customers, as well as a new workplace operating culture.

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