

Analysis of the Impact Mechanism of the Covid-19 Pandemic on Micro, Small and Medium-Sized Enterprises (Msmes) and Countermeasures

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Abstract: As the capillaries and backbone of the Chinese economy, micro, small and medium-sized enterprises (MSMEs) are also vulnerable to the pandemic and economic turbulence. Their development is of great significance to ensuring employment and maintaining stable growth. The COVID-19 pandemic is a hammer blow to MSMEs in China. In this paper, we comprehensively and systematically analyze the impact mechanism of COVID-19 on MSMEs from the perspectives of demand, supply, and industries, based on the current situation of China's economic development under the shocks of the pandemic along with the characteristics of the COVID-19 pandemic. And then we propose targeted countermeasures to help market players withstand economic headwinds from different aspects, including government policies, financial institutions, industry development, and enterprises themselves.

1. Introduction

The outbreak of coronavirus disease-2019 (COVID-19) has had a major negative impact on China's economic and social development, and many MSMEs are facing difficulties in their operations. As an important part of the national economy, MSMEs' healthy development or otherwise is potentially linked to China's economic development and social stability. Effectively assessing the impact of the pandemic on enterprises and putting forward targeted countermeasures have become major hot issues to be tackled in the "post-pandemic era" for China's economic recovery and high-quality development. In the context of COVID-19, a lot of scholars have focused their research on the impact of the pandemic on the economy[1]. Chengying He et al. (2020) measured and analyzed the impact of the pandemic on China's economy from the perspectives of GDP growth, the purchasing managers' index (PMI), and the economic sentiment index of China since the outbreak of COVID-19. Yinghong Meng (2021) believes that COVID-19 will not only have a direct negative impact on China's service trade in the short term but also affect China's service trade and global value chain through the adjustment of industrial policies of various

countries in the long run. The few relevant studies that have focused on the impact of COVID-19 on MSMEs often have limited precision in focusing on small and micro operators or are limited by the availability of data on small and micro operators to allow for in-depth and effective profiling of this group. These studies are often limited to discussions of small samples of a particular region or industry, for example, a survey by Xiaoheng Zhang (2020) on 84 micro, small and medium-sized foreign trade enterprises; studies on the production, operation, and financing of MSMEs in Wuxi, Shaoxing, Datong of China conducted by Wanfen Wang and Ziwei Wang (2020), Jie Zhang (2020), Dandan Sun (2020), respectively. Some studies only provide a general discussion of relevant policy measures and lack a strong empirical basis, such as Jingyi Yao's (2020) summary based on 78 relevant policy documents issued by the state and various provinces, autonomous regions, and municipalities and Lili Sheng's (2020) related discussion of measures taken by Chinese MSMEs to cope with the pandemic shock[2]. Dawei Zhang et al. (2020) and Zhengwei Wang et al. (2020) discussed the situation of MSMEs and relief initiatives during the pandemic shocks based on a sampling survey of more than 2,000 small and micro enterprises and big data of business operations, respectively. In addition, Jinquan et al. (2020) analyzed the confidence of MSME entrepreneurs based on data from the special telephone survey of the Enterprise Survey for Innovation and Entrepreneurship in China (ESIEC) in February 2020. The analysis of Da et al. (2021a) based on the ESIEC's February and May 2020 telephone surveys found that MSMEs had been hit hard and, although they had shown a V-shaped rebound, they had not returned to their pre-pandemic levels by May when they resumed work and production. In summary, first, most of the current academic literature focuses on the long-term impact of COVID-19 on the economy, and there are fewer articles discuss the short-term impact of the pandemic on enterprises, especially MSMEs; second, the conclusions of existing studies are mainly empirical and fact-based judgments and specific countermeasure suggestions, while the impact mechanism of the pandemic on the economic operation and industrial development is less profoundly explained from a theoretical perspective; and due to the uncertainty of COVID-19 prevention and control, it is difficult for experts and scholars to use appropriate mathematical models and big data to accurately predict the short-term and medium- and long-term impact of COVID-19 on the economic operation. Therefore, this paper focuses on analyzing the general mechanism of COVID-19 affecting the development of MSMEs, as well as proposing governance countermeasures to hedge against the impact of the pandemic for the long-term healthy development of our industry[3].

2. Characteristics and Development Status of the COVID-19 Pandemic

The main feature of the COVID-19 pandemic is that it is a sudden, unseen new outbreak, so there is no specific drug. It has a long incubation period, is highly contagious, and has a wide range of impacts, which has evolved into a global pandemic; but it also has some favorable features, including a lower fatality rate and we can roll out more timely and robust national measures against the outbreak. At present, the pandemic is under effective control at home, while the situation abroad is still grim[4].

3. Analysis of the General Mechanism of the Pandemic Affecting Enterprises

3.1. Affecting Small and Medium-Sized Enterprises (SMEs) of Consumption and Foreign Trade Through Aggregate Demand

In terms of aggregate demand, the COVID-19 pandemic has had a more direct and pronounced impact on SMEs in consumption than the traditional "troika" of investment, exports, and consumption. Moreover, some of the consumption gaps have not been bridged after the pandemic,

and there is a significant impact on foreign-trade-oriented SMEs.

First, the emergence of COVID-19 has had a direct impact on SMEs of consumer goods. To effectively curb the spread of COVID-19, it is necessary to artificially and rapidly reduce the flow of people, greatly reduce the gathering of people, and cut off the transmission route of the virus in a short period through measures such as quarantine. Most of the traditional offline consumption scenarios rely on outdoor activities, and measures such as quarantine make most of the consumption scenes disappear periodically, resulting in the consumption needs of residents cannot be met, and the production of consumer goods by enterprises cannot be guaranteed[5].

Second, small and medium-sized foreign trade enterprises have been badly hit by the emergence of COVID-19. On the one hand, the domestic impact, such as labor shortages and logistical disruptions caused by quarantine, road closures, production halts, and other epidemic prevention and control measures significantly reduce the ability of foreign trade SMEs to receive orders, produce and deliver; on the other hand, the global impact, with the outbreak of COVID-19 in countries or regions around the world, many countries or regions have successively adopted measures such as sealing countries and shipping closures, and foreign trade activities have been greatly reduced or even stagnant, causing heavy blows to the normal operation of the global industrial chain, some of which may be disrupted once it lasts for too long[6].

3.2. Affecting SMEs of Manufacturing, Service, and High-Quality Supply Through Aggregate Supply

On the aggregate supply side, among the three main industries driving economic growth, the COVID-19 pandemic has had a direct impact on manufacturing SMEs in the secondary sector and service SMEs in the tertiary sector, with an even greater impact on service SMEs in comparison; manufacturing SMEs may recover faster after the pandemic, while service-oriented SMEs may recover slowly. Besides, the pandemic also affects SMEs that provide high-quality supply.

First, manufacturing SMEs in the secondary sector have been impacted by the emergence of COVID-19. The secondary industry is dominated by the manufacturing sector, and at this stage, most manufacturing enterprises in China are still labor-intensive, and the delayed resumption of production and work policies implemented to prevent and control the pandemic directly affect the normal production and business activities of manufacturing SMEs. At the same time, the lack of short-term market demand will further weigh on the already inadequate cash flow of manufacturing SMEs, leading to cash flow rupture and bankruptcy in severe cases.

Second, the emergence of COVID-19 will strike service-oriented SMEs harder in the tertiary industry. The tertiary industry is dominated by the service industry, and the traditional service industry mainly adopts the offline business model, which is often accompanied by a large flow of people and materials. The weakened mobility of personnel and materials caused by the pandemic has a more obvious adverse impact on service-oriented SMEs.

3.3. Affecting the Financing of SMEs Through Inflation

Since the outbreak of the COVID-19 pandemic, many countries or regions have successively implemented easy monetary policies such as interest rate cuts and quantitative easing. China has also implemented prudent and loose monetary policies to cope with the shortage of market liquidity caused by the pandemic and solve the problems of corporate financing. However, the rapid rise in demand for hoarding necessities and seeking safe-haven assets during the pandemic will push up commodity prices, which could crowd out the effectiveness of monetary policy and affect the availability of corporate finance. Meanwhile, the higher level of inflation may be a constraint on the central bank's further implementation of an accommodative monetary policy, which is not

conducive to solving the problems of difficult and expensive financing for SMEs.

4. Countermeasure Recommendations

Small and micro operators are the main force of China's social and economic development, the reservoir of employment, and the key link to stimulate consumption. They are both the capillaries and backbone of our socio-economic development, yet they have special vulnerabilities due to their scale. The negative impact of the COVID-19 pandemic is continuously hammering small and micro enterprises over the course of a year, with a longer duration and deeper impact than the overall. Against this backdrop, this paper recommends the following countermeasures to support the development of MSMEs from the perspectives of the government, financial institutions, industry, and enterprises themselves, combined with the general mechanism of the impact of the COVID-19 pandemic on the development of MSMEs, aiming to promote the long-term and healthy development of MSMEs in the future.

The government should stick to the long-term strategy of "promoting consumption and expanding domestic demand". We can adjust and optimize macro-fiscal and monetary policies, stimulate consumer demand in the whole society, and boost the sales space and profitability of micro-enterprise products; we should continue to implement a graded and precise policy of regular epidemic prevention and control, deepen inter-regional personnel and technology exchanges, and improve the quality of inter-regional economic integration to promote a major domestic cycle.

Financial institutions should actively play an important role in providing financial support for the survival of entities and preventing financial risks. The threshold for credit qualification may be lowered for service-oriented industries that have been greatly affected by the pandemic. We should establish a real-time monitoring mechanism for currency, capital, and foreign exchange markets, thereby steadily promoting the function of financial services in serving the real economy on the premise of preventing systemic financial risks.

At the industry level, policy measures can be implemented to support the industries according to their characteristics. Income tax reductions and exemptions must be carried out for service-oriented industries to promote orderly competition in the market; independent innovation should be taken as the starting point to promote the global value chain of the manufacturing industry; for the construction and real estate sectors, policies to stabilize housing prices should be further implemented; technology transformation and technical service capabilities must be strengthened in information transmission, software, and information technology service industries, and give full play to the important role of big data in epidemic prevention and control; the financial industry must further strengthen credit support to form a virtuous circle of financial and real economic development.

As for enterprises themselves, it is important to foster the "regenerative capacity" of enterprises for sustainable survival. Although initial success has been achieved in the prevention and control of the COVID-19 pandemic, the risk of sporadic cases and localized outbreaks still exists. There have been some policies to assist enterprises in the previous period, but when they gradually resume normal operation, short-term support policies will be withdrawn successively. Enterprises should know how to self-restore, reduce operating costs, improve their long-term operating capacity as market players and ability to resist risks, and enhance their survival resilience in the race of the fittest.

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