

The External Environmental Crises and its Effect on MSME Sector and Trade in the Global Economy - With Special Reference to COVID-19.

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Abstract: *The COVID-19 pandemic has given the biggest blow to the world economy after the great depression 1930s. Around 60% of the world population is either under severe or partial lockdown without having medical solution to the coronavirus and affected the industrial sector severely. The impact is severe on trade, manufacturing and MSMEs. Manufacturing sector may shrink from 5.5% to 20%, exports from 13.7% to 20.8%, imports from 17.3% to 25% and MSMEs net value added (NVA) from 2.1% to 5.7% in 2020.*

Keywords: *COVID-19, MSMEs, outbreak, lockdown and resilience.*

I. Introduction

The outbreak of COVID-19 has severely affected national and global economies after the great depression 1930s. In the world, around 60% of the population is either under severe or partial lockdown without having medical solution to the coronavirus and economic activities across the world is slowdown. Most of the western countries are faced negative GDP growth of -3% to -15% and gave serious setback to micro, small and medium sized enterprises (MSMEs). Various enterprises are faced different issues like decrease in demand, supply chain disruption, raw material shortages, cancellation of export and import orders and transportation disruptions etc. The likely impact of COVID-19 are as follows; manufacturing sector may shrink from 5.5% to 20%, exports from 13.7% to 20.8%, imports from 17.3% to 25% and MSMEs net value added (NVA) from 2.1% to 5.7% in 2020 when compared to 2019. India's economy may barely manage to have a positive growth of 0.5% to 0.8% in an optimistic scenario but also faced the possibility of a 3-7% negative growth in worst scenarios for the calendar year. According to ILO SCORE Programme indicate that MSMEs providing more than 70% of global employment and 50% of GDP contribution all over the world.

In India MSME sector is second largest employment generator after agriculture, and acts as a breeding ground for entrepreneurs and innovators. It is estimated that MSMEs in India is 63 million and employs 110 million individuals. It produces more than 6000 products for local and global consumption. According to DGCIS data, the value of MSME related products in India is \$1,47,390.08 million and contributed 48.56% of total export during 2017-18.

History of External Environmental Crises Since 1953:

In the global economy many external environmental crises had occurred in the past and affected severely on MSMEs globally; such as 1953 great floods in Holland, 2005 Hurricane Katrina, 2011 floods in Thailand, 2011 Great East Japan Earthquake, 2011 Japan Tsunami, and Hurricane Harvey 2017 among others. Further, besides COVID-19, many epidemic outbreaks had occurred globally such as SARS, MERS, Swine flu pandemic (2009 H1N1), 2014 Ebola outbreak, Avian influenza, Salmonella infantis outbreak, ZIKA outbreak among others. These crises have a significant impact on the society, economy and MSMEs, bring not only economic losses but also create a severe threat to business continuity.

The external environmental crisis can affect MSMEs directly or indirectly. The direct impact includes fatalities, supply chain management disruptions, property damage and loss of inventories. In contrast, the direct effect includes damage to public infrastructure such as electricity supply, communication and transportation system and roads leading to increase in production cost and even business discontinuity. According to the WTO, since 1998 to 2017, the number of natural disasters has increased tremendously. During the above period, a total of \$2.9 trillion direct economic losses have been reported by disaster-hit countries. Further from 1998 to 2017, the US is the most affected (\$945 billion) followed by China, Japan, EU, India and Pakistan.

Several studies have reported devastating effects of such events on MSMEs. For instance, the 1999 earthquake in Turkey severely affected the MSMEs with damages estimated \$1.1- 4.5 billion. Similarly, the 2011 flooding in Thailand affected at least 557,637 enterprises, along with 2.5 million Job losses and 90% of these

firms were MSMEs. In Malaysia, due to unprecedented flooding at the end of 2014, more than 13000 SMEs were affected. Many developed countries have also experienced similar disastrous effects on MSMEs. For example, SMEs in the U.K during the 2001 Foot and Mouth Disease (FMD) outbreak suffered huge losses, particularly, the non-farming losses were estimated to be 5 billion pounds.

Impact of COVID-19 on global economy and MSMEs;

The outbreak of novel coronavirus slowdown the human activities on the earth by lockdown of cities all over the world, restricted labour movement, ban on travel and airline suspension etc. According to the UNCTAD report, current pandemic outbreak may cause global FDI to shrink by 5% to 15% and world needs a support package of up to \$2.5 trillion to cope with the damage. Based on these statistics, the current global crisis will likely to be worse than the 2008 economic crisis of the world.

According to International Labour Organisation (ILO), almost 25 million people around the globe could lose their jobs (loss of workers income of as much as USD 3.4 trillion) A more recent report of ILO shows that lockdowns (full or partial) measures are influencing 81% (around 2.7 billion workers) of the total global workers.

COVID-19 hit hardily the developing countries and difficult for them to implement effective stimulus without facing foreign exchange constraints. Most vulnerable countries are those that have weak health infrastructure, heavily dependent on trade and tourism sectors, heavily indebted and that depend on unstable capital flows. Controlling the COVID-19 outbreak will revive the economy, but the risk of continued financial stress is very high even after 2020. Further, it is estimated that poverty is likely to increase net number of around 11 million people across the globe.

Survey reports have shown that disruptions caused by the COVID-19 pandemic have impacted MSMEs earnings by 20-50% in India. Enterprises working in essential commodity business were better off in terms of interrupted but predictable cash flows. Some enterprises innovated their ways by shifting focus from non-essential commodities towards essential commodities, like production of hand sanitizer and toiletries, PPE kits, reusable masks, etc and are able to survive in tough times. MSMEs located in remote areas also faced lots of difficulties due to interrupted supply chain systems and intrastate lockdown provisions.

Effects on business continuity:

Of the 1000 companies surveyed from eight countries across four continents, 70% have had to shut down their operations and 50% of them have temporarily closed their business by following direct instructions from the authorities. While the other 50% have temporarily closed due to a reduction in orders, cases of staff COVID-19 infection, or more sadly, permanently.

Lower Revenues:

More than 75% of MSMEs are experiencing or expecting a reduction in revenues through 2020. In some cases, the reductions in revenues are very high. One-third (33%) of businesses anticipated a revenue loss of more than 50%. In some countries, such as Myanmar, Ghana, Bolivia and Colombia, there is relative optimism about the future coupled with a healthy dose of uncertainty. However, in other countries such as Indonesia, Peru, Tunisia and Pakistan, significant losses are expected.

Reduced demand for orders:

The situation is similar for customer orders for their goods. Around 75% of companies are suffered from reduced demand and 33% experienced a more than 50% drop in customer orders. However, the demand to recover somewhat in the days to come.

Cash flow shortages:

The situation is critical for SMEs and becomes even more so when looking at cash flow. Nearly 9 out of 10 businesses are experiencing a shortage in cash flow. The situation is not improved throughout 2020.

Impacts on the labour force:

The effects on SMEs are severe, and so are the measures concerning the labour force. Seven out of ten firms have reduced production capacity due to a lower number of temporary workers, reduced working hours, or employees are taking paid leave. A significant number of firms have taken more drastic measures. These include, asking workers to take unpaid leave, work for reduced pay or even by laying off permanent staff. Nearly, one-third of companies report a shortage of workers resulting from containment measures, family care responsibilities, or fear of infection.

India's trade with Top partners:

COVID-19 pandemic has affected the India's trade, especially exports. India exports its commodity mainly to the European Union (EU), USA, China, and South East Asian countries, collectively contributing around two third of India's exports and imports respectively. Two-fifth's of exports and one third of import shares of India is to severely affected coronavirus countries like USA, EU and China. Most notable, the USA and China both accounted for one-fifth's of India's exports and imports. Hence, there is less possibility of rise in exports amid falling rupee due to recession and significant fall in aggregate demand in these countries. Also, India has higher imports exposure as compared to exports with rest of Asian countries especially ASEAN, there the expected gain is less due to currency depreciation.

The MSMEs represent over 90% of the national enterprises in Pakistan and contribute 40% to the GDP, with over 40% to export earnings. Due to the outbreak of COVID-19 and lockdowns, many MSMEs have been severely affected. Consequently, these businesses are facing a variety of issues such as financial problems (67.93%), supply chain disruption (47%), decrease in demand (44.02%), reduction in sales and profit (38.04%, 41.85% respectively)

The various measures adopted to correct the economic recession due to coronavirus can be classified broadly in to four.

A. Protection of employees and information accuracy:

The production of employees is very important one, because COVID-19 is highly contagious and deadly. Moreover, in times of heightened tension, information accuracy plays an important role to update the stakeholders of the MSMEs about the situation and operation of the business. The MSMEs have been affected in terms of their income and employment. Global evidence shows that the spread of the virus can be curtailed through preventive measures like social distancing to ensure minimum human contact and clean environment.

The media and internet to be the primary source of pandemic information before its outbreak. Fake news is spread through social media, and invariably individuals make a personal evaluation of the situation by themselves. So one has to confirm the real news through multiple sources of information. The MSMEs play an important role to communicate authentic and reliable information in a timely manner to avoid ambiguity.

B. Boost economy:

1. Allow trade continue to operate:

Another most essential measure is to allow the trade to continue to operate as much as possible while taking all possible precautionary measures to contain the spread of the disease. This will help to function many falling MSMEs and stimulate the economy.

2. Home delivery/offline services:

Many enterprises such as restaurants, bakeries, shopping malls, fast food vendors, grocery stores and other related sectors can focus on providing online ordering services with home deliveries to curtail the business losses and maintain the social distance as much as possible. Many Chinese Apps available to order food such as Meituan, Eleme, etc. Even, Walmart also started offering home delivery services to survive and ease the business crisis unlike Pakistan.

3. Online banking:

It helps MSMEs to continue to operate their business transaction without any physical contact. In China, most of the local small business transactions takes place through the two most popular social media Apps known as WeChat and Ali Pay. These Apps usually do not charge any fee from both the sender and receiver.

C, Income and employment support for MSMEs:

The business may not survive during the ongoing lockdown without the support of government authorities. So various countries provided disaster assistance loans for enterprises impacted by COVID-19. It offered at low interest with long-term payments to maintain affordability. Besides, the repayment of loans can be extended for a longer time to ease the burden. Several countries like Australia, Canada, Newzealand, U.K and USA implemented such a facilities to their economy.

Apart from that payroll overdrafts, unemployment benefits, concession or suspension of commercial property rents and other subsidies were provided by the various countries to ease out the situation. Some firms are explored new opportunities or markets to give new products/services to afloat and recover from the crisis. Co-operation with other firms is one of the critical strategies that MSMEs must consider to offset the negative impact of COVID-19 outbreak on their businesses. The social dialogue between employers and workers organizations helped in disseminating the information and awareness among the workers for their health and safety.

D. Preplanning and learning from experience:

Preplanning has always been considered a strategic management decision that helps to fight against uncertainties. Over 83% of the enterprises expressed that they are neither prepared nor have any plan to manage such a crisis. Hence, there is a need to spread awareness about the importance of pre-planning to cope with similar uncertainties.

1. Building resilience capability:

Although preplanning is necessary but considering the uncertainty and complexity of the situation, it may not be sufficient. For this purpose, firms must possess the resilience capability to bounce back. It refers to a) the maintenance of positive adjustment under challenging conditions, b) the ability to bounce back from untoward events and c) the capacity to maintain desirable functions and outcomes in the midst of strain.

2. Encourage positive employee relationship to enhance resilience during crisis:

A positive relationship is particularly essential when considering how employees and enterprises respond to crisis. Good employee relations are considered as one of the important factors for the success of firms during the crisis. It may be the positive social relationship, trust and employee caring help to achieve higher productivity and bounce back from crisis.

Conclusion

The MSMEs sector plays an important role in any economy whether developed or developing economy, it covers around 40-50% of the GDP of respective economy. Due to COVID-19 outbreak and lockdowns these micro, small and medium enterprises hit hard. Further, those firms that have very low cash reserves are vulnerable and may not survive without government support. So, not only ongoing crisis should be mitigated but also various governments should take various financial measures to revive the MSMEs.

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