

## *Original Paper*

# COVID and Small Businesses in the U.S., China, and Russia: Three Models of Government Support

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### ***Abstract***

*The impact of the world COVID crisis on small businesses was extremely destructive. Governments of different countries being aware of critical importance of small business sector to national economies and societies as a whole undertook measures aimed at SME support. While the devastating effect of COVID on small business is quite comparable across the world, the scale and efficiency of government protective measures differ a lot in various countries. In this paper we made an attempt of comparative analysis of governmental efforts to protect small business economies on the example of SMEs in three countries: the U.S., China, and Russia.*

### ***Keywords***

*COVID, small business, government support, USA, China, Russia*

### **1. Introduction**

Small and medium-sized businesses are the major drivers of global economic growth. Over 90 percent of the business population represents small- and medium-sized businesses (SMEs) (Ortegon, 2019). The impact of the world COVID crisis on small businesses was extremely destructive. Governments of different countries being aware of critical importance of small business sector to national economies and societies as a whole undertook measures aimed at SME support.

While the devastating effect of COVID on small business is quite comparable across the world, the scale and efficiency of government protective measures differ a lot in various countries. In this paper we made an attempt of comparative analysis of governmental efforts to protect small business economies on the example of SMEs in three countries: the U.S., China, and Russia. The focus on these three countries is conditioned in high degree by their scale: put together they constitute 42.6% of the

world GDP, 24.6% of world population, and 23.4% of world territory (World Stats, 2020).

Given the variance of challenges that businesses have in different industries we focused on one industry (textile and fashion) that plays leading role in small business sectors in each of the three considered economies. The study is based on the combination of macroeconomic and qualitative data collected directly by surveying and interviewing small business owners/managers in each of the three countries.

## 2. Method

The presented research is based on combination of quantitative (analysis of macroeconomic data) and qualitative (interviews with business owners) methodologies. Below is the detailed application of these tools to each of the countries in the sample.

### 2.1 *The U.S.: Focus On Financial Toolkit*

#### 2.1.1 Macroeconomic View

The U.S. textile and apparel industry is a dynamically developing nearly \$70 billion sector that has grown by 12 percent since within the latest decade (Moran, 2019). It remains one of the most significant sectors of the manufacturing industry and ranks among the top markets in the world by export value: \$23 billion in 2018, the latest year for which data are available (Select USA, 2020). At more than 300,000 jobs out of which around 45 percent belong to small businesses, the U.S. industry is a globally competitive manufacturer of textile raw materials, yarns, fabrics, apparel, home furnishings, and other textile finished products (Select USA, 2020). The reaction of the U.S. economy and especially of its small business sectors to COVID related restrictions was sharp. According to ADP Research Institute, private employment for companies with 20 to 49 employees declined between March and April 2020 by 21.5 percent while in economy as a whole it has fallen by 15.7 percent (Wilmoth, 2020).

#### 2.1.2 Major Support Measures

In U.S. the core support measure was more than \$2 trillion stimulus bill in the form of the CARES ACT \$377 billion of which were specifically earmarked for small businesses (Cochrane & Fandos, 2020). Doug S., the small textile business owner in Northern California says: "In less than two weeks all of the money was already given out with many businesses left empty handed". Shortly after that Congress approved yet another \$484 billion to match another \$350 billion of this to small business sector (Duehren & Hughes, 2020). This time, according to interviewee, "the deployment of the dollars was more stringent". He adds: "Good thing is that this time it took less than 4 weeks for the Congress to put a stimulus package on the table. In the 2008-09 crisis, Congress took more than 500 days".

In addition to it, CARES ACT contains provisions making it possible for small businesses to obtain preferential loans to cover payroll costs, rent, utilities, and other immediate expenses. U.S. Small Business Administration (SBA) provides guarantees for loans up to 10 million. Loan payments can be deferred, and part of it used for certain qualifying purposes can be forgiven. Answering to question

how CARES ACT works for small businesses in textile industry, Doug S. says: “It is accessible and it works. You should visit your existing bank or SBA qualified lender. There are not industry-related restrictions, virtually all small businesses impacted by COVID-19 qualify”.

Except CARES ACT there are some other provisions that are impacting small businesses such as the Emergency Paid Sick Leave Act (applies to companies with less than 500 employees and provides employees of a paid leave if unable to they are unable to work/telework due to the specified set of reasons), Families First Coronavirus Response Act, Emergency Family and Medical Leave Expansion Act, and Federal Pandemic Unemployment Assistance.

Overall, of the \$2.7 trillion dollars allocated toward supporting the US economy due to COVID-19, more than \$700 billion was directly earmarked and deployed to small businesses (Peterson & Duehren, 2020). This was the largest fiscal stimulus ever approved. Recent data on the labor market shows that more than 2.5 million jobs were added back to the economy in May with the unemployment rate actually unexpectedly falling (Rosenberg & Long, 2020). Doug S. expresses cautious optimism. He says that in textile industry “many businesses will continue to be stressed, some may never come back, and others may consolidate. Our lives will never be the same again”.

## *2.2 China: A Wholistic Support across Supply Chain*

### *2.2.1 Macroeconomic View*

Among the approximately 20 million workers in the fashion and textile industry in China, 19 million works in SMEs (Liang, 2019). During the COVID crisis China’s clothing exports fell US\$22.7 billion, or 18% year over year, in the first quarter of 2020 (Tan, 2020), while domestic demand fell 31% (Wang & Tao, 2020). Small and medium enterprises in textile and other industries face large difficulties with plunged demand, employment pressure, and financial tightness (Wang & Tao, 2020). A recent study by Tsinghua University and Peking University surveyed 995 COVID crisis impacted SMEs. 34% of them did not have enough cash on hand to survive a one-month shutdown; 85% could not survive a three-month shutdown (21st Century News Group, 2020).

### *2.2.2 Stimulating Demand*

Demand holds the key to economy recovery. China’s domestic consumer spending accounted for about 60% of China’s GDP growth (Ho et al., 2019). To help stimulate consumer demand, the National Development and Reform Commission of China published a number of guidelines (NDRC, 2020) and as a result, many local governments have handed out multiple-million-dollar worth of shopping coupons to increase traffics at retail stores. Employment laws are reinforced to make sure workers get paid and financial supports are provided to companies to help them maintain employment and keep paying employees (OSC, 2020). SMEs are allowed to delay debt repayments. Banks are encouraged to grant more loans. Special bonds are allowed to be issued for infrastructure constructions.

In recent years, street vendors were swept off in many Chinese cities for various reasons such as food safety and hygiene, as well as for the purpose of maintaining a modern city look (Wong, 2020). On June 1, 2020, Chinese Premier Minister Li Keqiang stated that street vendors and stalls should play important roles in the post-COVID-19 economic plan (Zhou, 2020). As cities are laying out new street vending regulations, many street vendors have shown up in the first week of June. While clothes are commonly sold on street, street vendors might not contribute dramatically to the sector's GDP and generate significant cash flows for textile firms along the supply chains. The goal is simply to provide self-employment opportunities and income for unemployed and underemployed people, and to boost consumer confidence. While the global textile market is expected to decline over 15% in 2020 (Global Data, 2020), the Asian-Pacific market could be in a better position driven by the potential growth of post-pandemic domestic market.

### 2.2.3 Financial Support

On June 2, 2020, the Chinese Banking and Insurance Regulatory Commission (CBIRC) announced a temporary policy that for SMEs, the deadline for debt repayment could be extended to the end of June due to COVID-19 (CBIRC, 2020). Meanwhile, banks are encouraged to issue more loans and provide more financial services to SMEs. In a recent case, Bank of China Fullerton Community Bank (BOC-FCB) issued a 2 million yuan, 1-year loan to a small textile manufacturer in Zhejiang at a rate of 6% without a guarantee or mortgage in order to help the manufacturer resume production. To help the manufacturer ease the impact from COVID-19, no monthly repayment is required in the first three months (BOC-FCB, 2020). Such a loan would not be approved before COVID-19 due to insufficient supply of credit from major banks and regulatory limitations around risk measures and the manufacturer would have to go to shadow banking (Ehlers, 2018).

Large companies are also encouraged to issue bonds in order to provide more credits for supporting SMEs along the supply chains. As street vendors are coming back, technology giants such as Tencent, Alibaba, JD.com and Suning have also announced supply chain financing and service initiatives to help street vendors and small enterprises recover quickly through their WeChat and Alipay mobile payment as well as e-commerce platforms by offering loans, subsidies, business guidance and marketing services (Zhang, 2020).

In summary, the complex financial, socio-economic, and administrative measures taken by Chinese government clearly help small and medium enterprise sector in stimulating domestic demand, improving employment, and getting financial support for SMEs. However, there is still long way to go. Textile business owner in Shaoxing (Zhejiang Province) Hongzhi W. says: "The future still appears to be uncertain. The production is weakened, investment depressed, many supply links disrupted. The COVID consequences and challenges will definitely be long term".

### *2.3 Russia: Narrower Focus and Indirect Action*

#### 2.3.1 Macroeconomic View

In Russia most of the supply chains in textile industry originate in China (most of yarn, fabrics and significant part of textile consumer goods are manufactured there), therefore the COVID related destructive influence started to spread even before coronavirus massively intervened Russia. Anecdotally, once the work of Chinese factories was resumed after two months break at the second half of March and shipments from Chinese ports resumed, the wave of coronavirus pandemic came to Russia and textile industry was hit again, this time with internal restrictions and limitations. As a result, around 15% of textile industry workers were laid off, and the income of 80% of those employed in the industry substantially dropped (Foy, 2020). Most of textile SMEs either stopped their work or drastically decreased the amount of operations within two months—April and May 2020.

#### 2.3.2 Declared Support Measures

For mitigating the destructive influence of COVID restrictions on the economy the set of supportive measures, first of all in small and medium enterprises sector, was declared. The most important ones included direct financial support from the budget for paying SME workers' salaries and preventing layoffs; issuing interest-free loans, also for payment of salaries; extending the deadlines for taxes payments; decrease of rental payments; deferred salary tax and insurance payments (Government of Russian Federation, 2020).

Andrey M., the owner and CEO of Moscow-based small business textile company with operations in Russia, mainland China, Taiwan, and South Korea, says most of the support measures are of indirect action and executed in such a way that many companies got either zero or even negative benefit. For instance, interest-free payroll loans were issued by the small group of banks only, and applications were accepted only from those companies that were these banks' clients. The largest Russian bank Sberbank was the only one that was accepting applications from non-clients. However, in order to get it considered a company had to open salary accounts for its employees in Sberbank with substantial payment upfront, and then application could still be rejected. "It is not surprising that practically vast majority of small businesses did not even try to apply for such a loan", Andrey says.

The direct financial support declared by Russian Government for paying SMEs' worker salaries included a one-time subsidy in the amount of 12 130 RUR (around 170 USD) for each employee of a SME. These subsidies were focused on SMEs belonging to the 11 "most suffered" industries that include air transportation, cultural, entertainment, sports and recreation activities; hospitality; catering; conferences and trade shows; household services such as repair, laundry, dry cleaning, hairdressing and beauty salon services (Ministry of Economic Development of Russian Federation, 2020). Textile industry as many other manufacturing and trading businesses was not included in the list. In addition, in order to get this subsidy a company must be included in the Russian Unified Register of SME Entities (i.e., "mom and pop" and micro-businesses were excluded), have less than 3,000 RUR in tax and insurance debts, and keep the number of employees on the level of not less than 90% of

pre-COVID period.

The deferred tax payments for SMEs as another measure could be a substantial help, however, most important taxes such as VAT and personal income taxes paid through the company were excluded from the list. “Those taxes that were deferred normally constitute only around 10% of total tax obligations. However, in current conditions this number will be even lower than that. For instance, most of SMEs will not enjoy preferences on corporate income taxes since many of them will not have any profits at all”, says Andrey.

The discount on rental payments were directly enforced only for those companies that rented federal and municipal property. For all others rental discount was just a “recommendation” of the government. Given that in most of cases rental agreements are concluded through commercial intermediaries rather than directly with state entities the measure for the vast majority of SMEs did not result in any real support at all. “The only measure that worked in some way for the majority of SMEs was the reduction of rate of insurance contributions from 30% to 15%”, Andrey says. “However, first, this is a very modest help, second, nobody knows for how long it will last—the government provision does not indicate any time period, and it can be interrupted at any time”.

### **3. Result**

The comparison of measures aimed at protection of SMEs in three countries shows three distinct models of government support related to COVID: 1) the wholistic (organizational, financial, political, administrative) support on all stages of the value supply chain from inbound supply to final demand in China; 2) active, but mostly financial toolkit driven support in the U.S.; and 3) mostly declarative with measures partially implemented or bureaucratically nullified in Russia.

### **4. Discussion**

This “support hierarchy” (strongest in China, moderate to strong in the U.S., and weak to almost no real support in Russia) apparently correlates with the role that small businesses play in economies of three countries. While in China small business sector makes up 68 percent of GDP, this share in the U.S. comes to 44 percent, and in Russia 22 percent only (Rosstat, 2019).

With that said it is difficult to build cause and effect relationship that looks more like “chicken and egg” effect. No one can assert with confidence whether it is strong governmental support that conditions high share of small business sector in a national economy or vice versa this is the role of SMEs in economies that determines the level of their governmental support. One implication for future research will be to explore the results of these measures in each of the three countries and analyze which changes (both quantitative and qualitative) the roles of small businesses did undergo in these economies after the COVID socio-economic crisis.

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