# Research on Economic Strategies for Small and Medium-sized Enterprises in the Post Epidemic Era

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**Abstract.** In this paper, we analyzed the economic policies mainly adopted in the post pandemic era, and based on the characteristics of small and medium-sized enterprises before and after the pandemic, we proposed the multi-dimension analysis economic strategies based on system dynamics analysis could have been adopted that are in favor of small and medium-sized enterprises and in turn leading to potentially more effective recovery in the post pandemic era, so that they can enter a virtuous cycle as soon as possible in an unfavorable economic environment.

**Keywords:** Economic strategy; Post epidemic era; Small and medium sized enterprises.

## 1 Introduction

During the pandemic, the global economy has been seen to have to face multiple problems, with some of which being expected to last in the long run, including high unemployment rates and high inflations, while many of the government policies that are used to solve those problems requires adjustment over time. For example, a government may choose to reduce interest rate during economic downturns or even recessions, so as to increase consumption and investment, but later on the government may choose to adopt different policies like raise the interest rate back again or reduce government spendings such as subsidies. Although the constant change of policies indicates the government is responding quickly towards any further situations and problems, it may cause an inconsistent environment in the economy as well, where investors and consumers are less able to predict the future of a market or industry. This could be alright during economic downturns that are of relatively low degree, but when it comes to recessions that are more serious with its negative effects going to last longer, like the economic decline after the pandemic, the continuous change of policies may be problematic. This may further lead to suspicious investors ad potential investors leave the market in the long term, increasing time for full recovery, stagflation and etc. While the large companies are more resistant to uncertainty, medium and small sized policies may not successfully recover in the post-pandemic era, which makes finding the effective allocation and



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combination of policies that in general are less volatile become quite necessary. For example, Bartik and Alexander W. [1] and Humphries et.al. [2] all surveyed many small business owners were already severely impacted by COVID-19-related disruptions to some degree.

# 2 Analysis of current main implementation strategies for small and medium sized Enterprises

## 2.1 Fiscal and Monetary policies

Fiscal policy aims to influence total demand through taxation and public expenditure, while monetary policy affects interest rates and overall price levels by controlling the money supply. The combination of the two can achieve better economic regulation effects. Taking the 2008 financial crisis as an example, in February 2009, the United States approved a $787.2 billion fiscal stimulus plan. The budget deficit of the US government in 2009-2011 as a percentage of GDP was 12.9%, 8.5%, and 6%, respectively. In 2008, the German government allocated 500 billion euros to rescue the market; The French government has allocated 360 billion euros for financial assistance; The UK government provides up to £ 50 billion in funding to major commercial banks to enhance market liquidity; The Spanish government provides credit guarantees to financial institutions through a financial aid program with a total amount of up to 100 billion euros; The governments of countries such as the Netherlands, Portugal, Austria, and Italy have also announced huge government spending plans. In terms of monetary policy, countries such as Europe and America generally implement "quantitative easing" monetary policies. For example, the European Central Bank announced in 2009 that it would extend the term of loans to banks at fixed interest rates from 6 months to 12 months, and would purchase 60 billion euros of asset-backed bonds; The Bank of England has increased the amount of asset purchase tools by £ 50 billion to £ 125 billion. The quantitative easing monetary policy provides the much-needed liquidity in the market, thereby bringing necessary confidence to the market.

The above listed are all examples of the demand-side policies that have been adopted by the governments of various countries, from which we can see there are two typical policies that could be used to reduce the effect of economic downturns, namely increasing subsidies and reducing interest rates.[3]

### 2.1.1 Provide subsidies

Before the epidemic, when the global economy experienced great turbulence, such as the financial crisis in 2008, many governments adopted policies of large-scale cash distribution to the market, with some money being especially offered aiming to help small and medium size enterprises. For instance, Germany allocated 1.5% of GDP, or 50 billion euros, to subsidize small and medium-sized enterprises and individual businesses; The UK has provided loan support to businesses affected by the pandemic and has also disbursed over £ 7500 to individual businesses with annual profits below £ 50000 and many other. Therefore, we can conclude the government's take subsidy measures for small and medium-sized enterprises during various economic crisis, such as issue low interest loans, reduce tax, and provide financial subsides. Moreover, the relative government departments provide effective information such as technology and market to further support small and medium-sized enterprises in quickly emerging from the downturn. [4]

### 2.1.2 Interest rate policy

When lowering deposit interest rates, the primary purpose of the government is not to stimulate consumption, but to promote liquidity. With the increase of currency liquidity, more funds can enter the real economy, allowing enterprises to receive more financial support, thereby promoting their production and economic development. Meanwhile, as the cost of debt increases, the difficulty of financing for enterprises increases. Lowering deposit interest rates also reduces the financing burden for enterprises, making it easier for them to obtain the necessary loan funds. At the same time, the significant increase in monetary liquidity can effectively promote the development of the loan market, increase the demand for bank loans, and guide credit funds to flow into the real economy. In addition, reducing deposit interest rates can also help reduce the cost of funds for enterprises, lower loan interest rates for enterprises, and promote their development.

However, when the inflation rate is expected to be too high, raising interest rates need to be used to control inflation. The government can increase deposit interest rates to suppress the consumption and investment demand of residents and enterprises, reduce the money supply, and alleviate inflationary pressure. High interest rates will increase borrowing costs, weaken the investment and consumption willingness of enterprises and individuals, and thus have a certain inhibitory effect on inflation. Raising deposit interest rates is also a form of currency. The means of policy adjustment, the central bank can influence the currency in the market by raising interest rates.

## 2.2 Other supply-side policies

From above we know that fiscal policy can stimulate economic growth, promote employment and consumption by increasing government spending and reducing taxes. Monetary policy can control inflation and maintain monetary stability by adjusting the money supply and interest rates. Moreover, the country can also take some other policies measures that focusing on improving the efficiency of the side of the producers, to help enterprises overcome difficulties and stabilize the market. [5]

For instance, reducing taxation and provision of more and better education and training could improve the efficiency of workers and utilization of capitals, which can thus help firms gain more competitiveness through increasing the chance that products sold to consumers are of better value for money. It could also improve firms' risk-bearing abilities and encourage more investments, both of which are getting especially important for small and medium-sized firms during periods of economic downturns like the post pandemic era. [6]

# 3 Proposal of potentially better alternatives

## 3.1 Analysis of the characteristics of small and medium-sized enterprises

Compared to large enterprises, small and medium-sized enterprises have the following characteristics:

- Focus on the specific small products

Usually, small and medium-sized enterprises cannot produce multiple products which are overlooked by large enterprises, focusing on the operation of a specific small product to continuously improve product quality and production efficiency. Moreover, with the professional and collaborative development of social production, most of them have rid themselves of the organizational forms of "large and comprehensive" and "small and comprehensive". They establish close collaborative relationships with large enterprises through specialized production, by which they can survive and develop.

- Quickly meet product diversity needs

Compared to large companies, small and medium-sized enterprises are more likely to quickly meet market diversity needs, even though their production capacity is relatively low, they can more flexibly adapt to the personalized product needs of the market.

- Develop modern technology

It is relatively easy for the small and medium-sized enterprises to put new technological inventions into practice. For example, many areas such as computers and information systems developed quickly since the 1970s. Many small and medium-sized enterprises have rapidly grown into big companies such as HP, Microsoft and Yahoo in just a few years or more.

## 3.2 Analysis of the necessity of supporting small and medium-sized enterprises through economic policies in the Post Epidemic Era

The previous text emphasized the advantages that small and medium-sized enterprises have compared to large enterprises, but they also have some disadvantages, such as poor ability to resist business risks, weak funding and poor fundraising ability, especially under the impact of the epidemic, which will directly lead to the bankruptcy of small and medium-sized enterprises.

Even for these enterprises that have not gone bankrupt, there will still be problems of being unable to flexibly avoid the instability of policies in the post pandemic era, and not being able to grasp the market accurately. This can easily lead to the loss of information for small and medium-sized enterprise investors, who want to withdraw from the market and no longer invest. At the same time, many companies are not limited liability companies, which makes them unable to bear the same proportion of risks as large companies. Moreover, for small companies, withdrawing investment itself is relatively easy, which can exacerbate their tendency to withdraw from the market when facing an uncontrollable or unfavorable future. In the long run, small and medium-sized enterprises are withdrawing their investments, which can easily lead to a monopoly by large companies. [7] Therefore, it is necessary for us to study how to adopt a comprehensive and systematic approach to support the development of small and medium-sized enterprises.

### 3.3 Economic development strategies for Small and Medium sized Enterprises in the Post Epidemic Era

After analyzing the characteristics of small and medium-sized enterprises themselves in the previous text, we propose a multidimensional strategy analysis model for small and medium-sized enterprises, i.e. we can comprehensively analyze from multiple perspectives, including the characteristics of small and medium-sized enterprises such as committed costs, labor flexibility and revenue resiliency [8] adapting to the external economic environment and various economic strategies, described as Fig.1 and Fig.2.

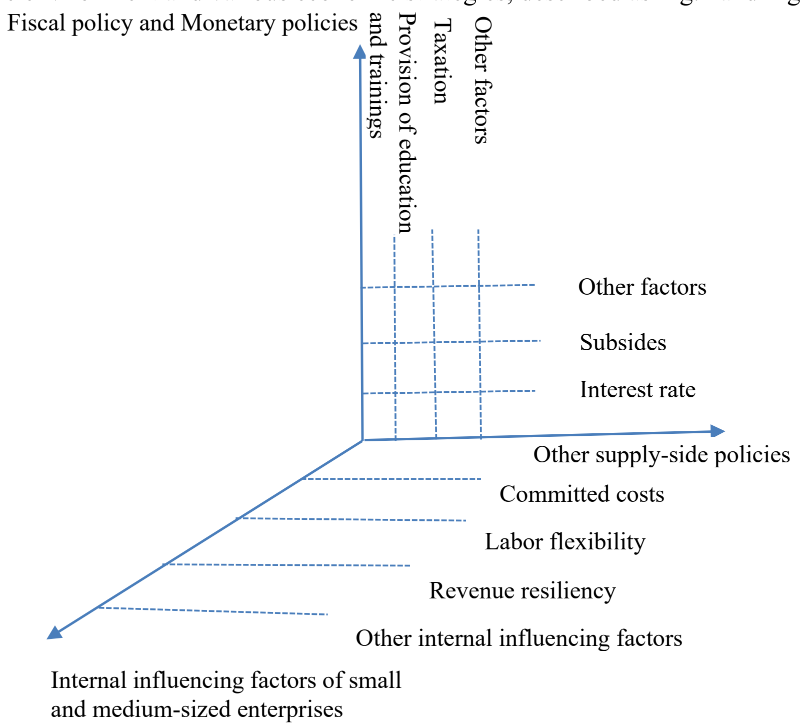


**Fig. 1.** Economic strategies for small and medium-sized enterprises based on multidimensional analysis

Based on the analysis of Fig. 1 and Fig. 2, we could further construct a comprehensive model to obtain more optimized economic strategies.

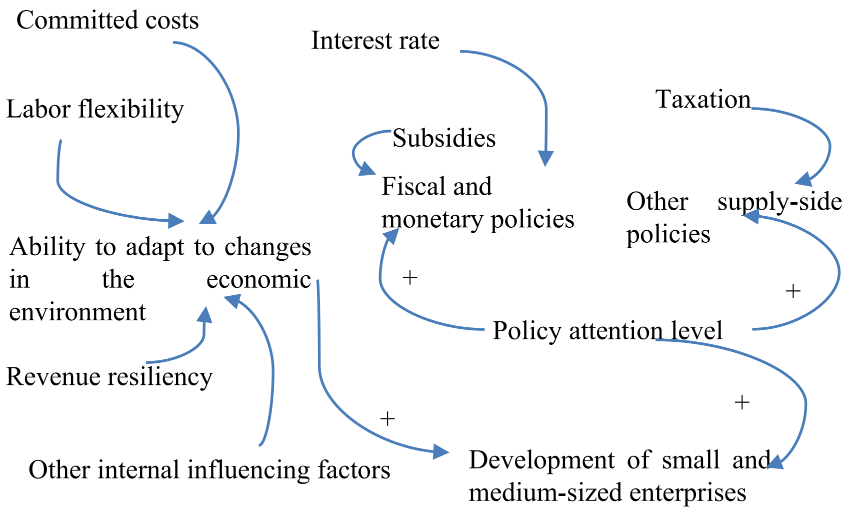


**Fig. 2.** Causal relationship diagram of relevant countermeasures

## 4 Conclusions

In a word, small and medium-sized enterprises are essential to the economy and the chance of bankruptcy of these enterprises may even worsen after the epidemic. Continuous changing economic policies subsequently to cope with changes in the economic situation after the epidemic may not be the best solution, and more comprehensive strategies should be adopted for their development, as from both long-term and short-term perspectives, it is important for economic entities to fully consider the role of small and medium-sized enterprises in different economic environments.

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