

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2561 Rayburn House Office Building
Washington, DC 20515-6515

MEMORANDUM

TO: Small Business Committee Members
FROM: Nydia M. Velázquez, Chairwoman
DATE: Tuesday, March 10, 2020
RE: Full Committee hearing entitled, “The Impact of Coronavirus on America’s Small Businesses”

The Committee on Small Business will hold a hearing entitled “The Impact of Coronavirus on America’s Small Businesses” on Tuesday, March 10, 2020 at 11:30 A.M. in room 2360 of the Rayburn House Office Building.

On January 30, 2020, The World Health Organization (WHO) declared a global health emergency over novel coronavirus, known as COVID-19. The virus has infected over 80,000 people and killed nearly 3,000 worldwide, with confirmed cases on every continent but Antarctica. The outbreak has caused global supply-chain disruption, with small firms that rely on Chinese imports struggling with the economic fallout of the situation. Further, small businesses, like restaurants and tourism companies, are being impacted by the spread of misinformation and xenophobia. Members will hear from health experts, economists, and small firms disrupted by the Coronavirus and work to establish best practices to prepare for and react to the global health epidemic.

Witnesses:

- Dr. Jennifer Huang Bouey, Ph.D., M.D., Senior Policy Researcher; Tang Chair in China Policy Studies, Rand Corporation, Arlington, VA
- Mr. Jay Ellenby, President, Safe Harbors Business Travel Group, Bel Air, MD, Testifying on behalf of the American Society of Travel Advisors (ASTA)
- Mr. Andrew Chau, Co-Founder and CEO, Boba Guys-Tea People USA, Brisbane, CA
- Dr. Yanzhong Huang, Ph.D., Senior Fellow for Global Health, Council on Foreign Relations, Professor, Seton Hall University’s School of Diplomacy and International Relations, Washington, D.C.

Background

The Coronavirus (COVID-19) originated in Wuhan, China in late December 2019. It was first identified as a source of illness on January 7, 2020, when traced to a Wuhan seafood market.¹ As of March 9, 2020, there are 111,363 cases and the death toll stands at 3,892. The disease has been

¹AL JAZEERA, *Timeline: How the New Coronavirus Spread*, March 3, 2020.
<https://www.aljazeera.com/news/2020/01/timeline-china-coronavirus-spread-200126061554884.html> (Last visited March 5, 2020)

transmitted to countries in the Asia-Pacific region, Europe, North America, the Middle East and Africa, with 566 known cases in the United States. On January 30, 2020, the World Health Organization declared the outbreak a global health emergency.

COVID-19 is also having an economic impact on small businesses here in the U.S. With factories shuttered in China, many small firms that rely on parts and supplies from China cannot receive inputs for goods they produce and manufacture for sale. American small businesses that depend on travel and tourism are seeing an impact. Experts predict more than \$10 billion in spending from Chinese visitors will be lost, while small firms in hotel, lodging, retail and dining are seeing decreased sales as a result of the travel restrictions, cancelled conferences, and decreased business travel.² In addition, small health care providers have always been the core of our healthcare system and will be needed to help distributing vaccinations and treating Americans across the country.

Global and Domestic Economic Impact of Coronavirus

Trade and Supply Chains

China is the world's second largest economy engaging in \$4.4 trillion in international trade.³ Due to the rapid spread of the Coronavirus, business activity and transportation are being restricted in many Chinese cities, impacting 90 percent of all businesses in the affected provinces.⁴ City-wide lockdowns and quarantines have led to factories and financial centers on full or partial lockdown, laborers unable to return to work, and transportation disruptions throughout China and at the ports. This is leaving Chinese companies unable to fulfill orders and contractual obligations, which is having a significant impact on global supply chains. China's Council for the Promotion of International Trade has issued over 1,615 *force majeure* certificates, in an attempt to prevent Chinese companies unable to fulfill contractual obligations from having to pay additional penalties.⁵ These certificates are issued for over \$15.8 billion worth of goods that are at risk of cancelation or delay in 30 different business sectors.⁶ There are further concerns this could inhibit implementation of the phase one trade deal signed on January 15, 2020.⁷

The outbreak is impacting American businesses that rely on components and products from China, many of whom are already facing increased costs as a result of the U.S. China trade war. According to 2016 Census Data, small firms were responsible for 1/3 of all U.S. imports with heavy

² David Slotnick, *The Coronavirus is Slamming the US Travel Industry, With Experts Predicting it Will Wipe Out More Than \$10 Billion In Spending From Chinese Visitors*, BUSINESS INSIDER, Feb. 18, 2020. <https://www.businessinsider.com/coronavirus-impact-america-travel-industry-airlines-economy-2020-2> (Last visited March 9, 2020)

³Huileng Tan, *Coronavirus Outbreak in China Spurs Supply Chain Shifts that Began During Trade War*, CNBC (Feb. 20, 2020) <https://www.cnbc.com/2020/02/20/coronavirus-outbreak-spurs-supply-chain-shifts-started-by-us-china-trade-war.html> (Last visited March 2, 2020)

⁴ *Id.*

⁵ *Id.*

⁶ *Id.*

⁷ Karen M. Sutter, *U.S. Signs Phase One Trade Deal with China*, Congressional Research Service IN11208, January 17, 2020. <https://crsreports.congress.gov/product/pdf/IN/IN11208>. As part of this trade deal, China promised to increase the purchase of U.S. goods and services by \$200 billion. Part of this deal was intended to help American farmers regain market access to China.

concentrations in manufacturing and wholesale.⁸ A disruption leaves many small firms without the ability to source goods resulting in lost sales that may never be made up.

Tourism, Hospitality, and Travel

With the outbreak spreading across the U.S., and more people staying at home combined with the many conferences and large events being postponed, businesses in the hotel, hospitality and food service industry, all dominated by small businesses, will be negatively impacted.⁹ Additionally, consumer spending is at the heart of the U.S. economy, accounting for approximately 2/3 of our GDP. Any sustained downturn in consumer spending will likely result in small firms suffering the most economic harm from fewer customers and sales.

Chinese tourists contribute significantly to the U.S. economy. According to the National Travel and Tourism office, Chinese nationals made 2.7 million entries into the U.S. in the first 11 months of 2019.¹⁰ These tourists contribute to tens of billions of dollars to the travel industry, hotel industry, retail industry, and restaurants. In 2018, this totaled \$35 billion, according to the latest estimate by the U.S. Travel Association.¹¹ According to Tourism Economics, Moody's, and the U.S. Travel Association, about 3 million Chinese people visit the U.S. each year and spend on average \$6,500 per trip, or 50 percent more than typical international tourists.¹²

Financial Markets

Following the stock market dip on Monday, February 24th, 2020, many worry that the Coronavirus could have large repercussions on U.S. and the global economy.¹³ Given China's global economic clout many economists fear that the coronavirus will have a larger impact on the global economy than SARS had in 2003.¹⁴ During the SARS outbreak in 2003, China's economy was sixth, rather than second in the world—where it is today.¹⁵ China also accounted for 4.2 percent of the world's GDP in 2003, it now accounts for 16.3 percent of GDP.¹⁶ Using SARS as an estimate, economists

⁸ <https://www.census.gov/foreign-trade/Press-Release/edb/2016/text.pdf>

⁹ Abha Bhattarai, *Companies are Cancelling U.S. Domestic Travel Over Coronavirus Fears*.

<https://www.washingtonpost.com/business/2020/02/28/coronavirus-cancel-travel/> (Last visited Mar. 4, 2020)

¹⁰ Morris and Hufford, *U.S. Travel Industry Set for Multibillion-Dollar Hit from Coronavirus*, WALL STREET JOURNAL (February 12, 2020) <https://www.wsj.com/articles/travel-industry-set-for-multibillion-dollar-hit-from-coronavirus-11581503401> (Last visited March 2, 2020)

¹¹ *Id.*

¹² Paul Davidson, *How the Coronavirus Could Affect the Products You See – Or Don't – In Stores*, USA TODAY (Feb. 20, 2020) <https://www.usatoday.com/story/money/2020/02/20/china-coronavirus-spread-threatens-us-economy-commerce/4806939002/> (Last visited March 2, 2020)

¹³ See Greg Ip, *Fear of Coronavirus, Rather than the Virus Itself, Hits Economies*, WALL ST. J. (Feb. 24, 2020) https://www.wsj.com/articles/fear-of-coronavirus-rather-than-virus-itself-hits-economies-11582589904?mod=hp_lead_pos2.

¹⁴ See Peter S. Goodman, *China's Coronavirus Has Revived Global Economic Fears*, N.Y. TIMES (Jan. 27, 2020) <https://www.nytimes.com/2020/01/27/business/coronavirus-china-economic-impact.html>.

¹⁵ See Peter S. Goodman, *SARS Stung the Global Economy. The Coronavirus Is a Greater Menace* (Feb. 3, 2020) <https://www.nytimes.com/2020/02/03/business/economy/SARS-coronavirus-economic-impact-china.html>.

¹⁶ See *Coronavirus to have larger impact on global economy than SARS*, THE ECON. TIMES (Feb. 7, 2020) <https://economictimes.indiatimes.com/news/economy/finance/coronavirus-to-have-larger-impact-on-global-economy-than-sars-ihs-markit/articleshow/74007389.cms?from=mdr>.

estimate that the economic impact will be concentrated in the first half of 2020 with a reduction in GDP between 0.8 and 0.5 percent worldwide.¹⁷

Economists believe that the real, lasting, damage from the outbreak is not in manufacturing, but in the potential disruption of global supply chains as discussed above¹⁸ Many companies purchase parts from China or assemble their products in China. Also troubling is the decline in China's demands for goods, which Goldman Sachs estimates will cause the U.S.'s economic output to decline roughly half a percentage points in the first quarter of 2020.¹⁹

The decline in global and U.S. growth along with volatility in financial markets over the past two weeks reminds many of the 2008-2009 financial crisis and Great Recession. Access to affordable capital and free flow of money is critical for small firms to maintain operations, fund purchase orders, pay suppliers, and their workers.

Impact on Small Businesses, Especially Asian-American Businesses

Since the beginning of the outbreak in China, misinformation about the virus is impacting Asian-American businesses and driving away customers from Asian neighborhoods. According to an NBC article, a New York rice noodle shop, Yin Ji Chang reported a 40 percent drop in business.²⁰ Indeed, in all of New York City's Manhattan Chinatown, business is down 40 to 50 percent.²¹ In Los Angeles, a fraudulent letter purported to be from the World Health Organization was circulated on Facebook, warning of specific Asian-American owned businesses to stay away from to avoid the outbreak. There are also news reports of physical assaults on Asian Americans.²² Misinformation, discrimination and xenophobia have long lasting social, cultural, and economic impacts. It is important that elected officials and community leaders share accurate and verifiable information to prevent spreading discriminatory and xenophobic rhetoric that perpetuate stereotypes.

While the economic losses are not solely felt by Asian American businesses, they are feeling the effects much quicker than most. Many small businesses worry that public fear will keep consumers from spending in their local communities for fear of transmission. Firms like restaurants and retailers operate on very lean budgets so any decline in foot traffic could lead to major disruptions

¹⁷ *Id.* Compare James T. Areddy, *Coronavirus Closes China to the World, Straining Global Economy*, WALL ST. J. (Feb. 3, 2020) <https://www.wsj.com/articles/coronavirus-closes-china-to-the-world-straining-global-economy-11580689793> (finding in their survey of 10 economists that first quarter growth would decline a percentage point to a median of 4.9 percent).

¹⁸ See James F. Peltz & David Pierson, *From toys to Teslas, China's coronavirus disrupts flow of global business*, L.A. TIMES (Feb. 17, 2020) <https://www.latimes.com/business/story/2020-02-17/coronavirus-impact-economy-business>.

¹⁹ See Areddy.

²⁰ Kimmy Yam, *Asian American Lawmakers urge Congress Members to Help Stop Coronavirus-Fueled Xenophobia*, NBC NEWS, Feb. 28, 2020 <https://www.nbcnews.com/news/asian-america/asian-american-lawmakers-urge-congress-members-stop-spreading-coronavirus-misinformation-n1145581> (Last visited March 5, 2020)

²¹ Maggie Hickey, *Chinatown Looks to Dispel Coronavirus Fears Ahead of Lunar New Year Parade*, PIX 11, Feb. 8, 2020. <https://www.pix11.com/news/local-news/manhattan/chinatown-looks-to-dispel-coronavirus-fears-ahead-of-lunar-new-year-parade> (Last Visited March 5, 2020)

²² Bruce Y. Lee, *How Covid-19 Coronavirus is Uncovering Anti-Asian Racism*, Feb. 28, 2020 <https://www.forbes.com/sites/brucelee/2020/02/18/how-covid-19-coronavirus-is-uncovering-anti-asian-racism/#1ce0f64d29a6> (Last visited March 5, 2020)

to the business or even closing its doors forever. America's small businesses are on the frontline of this emergency and require the coordinated assistance of federal, state, and local officials.

Planning and Continuity Considerations

While larger corporations can carry on business as usual even while many employees are out sick, small firms that rely heavily on key individuals may find themselves nearly incapacitated if these employees are forced to stay home. Unfortunately, many businesses have not taken steps yet to address this challenge. As such, small business owners are being advised by the Centers for Disease Control and Prevention on several ways to prepare their businesses to minimize business disruptions.

Fortunately, technological advancements in the past decade have made teleworking more feasible for many workers. Those already working remotely have reached all-time highs, having grown 173% since 2005 among the non-self-employed population.²³ An estimated 4.7 million employees now work from home at least half the time.²⁴ However, this is a trend that is more likely and feasible for larger companies, and significantly less so for small businesses and the self-employed. Recent research from Global Workplace Analytics finds that half of the U.S. workforce holds a job that is compatible with at least partial telework and approximately 40 percent of the workforce works remotely at some frequency.²⁵ Companies should continue developing plans to further incorporate teleworking in the event of widespread infections or school closings that force parents to stay home.

Public Policy Considerations

Emergency Supplemental

Last week, the House passed an emergency supplemental (H.R. 6074) providing additional federal funds to address the coronavirus outbreak. The bill includes emergency loans to assist small businesses that suffer economic damage from the virus' spread.²⁶ In the addition, the \$8 billion package includes funding for R&D of vaccines, therapeutics and diagnostics, over \$2 billion in public health funding for prevention and preparedness, and nearly \$1 billion for medical supplies to support healthcare preparedness at community health centers.²⁷

FY2021 Budget Proposal

Amid this outbreak and possible world pandemic, President Trump's proposed budget includes cutting 16 percent from the CDC in FY21, with a 10 percent overall reduction in funding for the Department of Health and Human Services (HHS).²⁸ Furthermore, the U.S. contributes nearly 2.5 percent of the WHO's overall 4.8 billion budget.²⁹ If enacted, the Trump administration would cut

²³ GLOBAL WORKPLACE ANALYTICS, *Telecommuting Trend Data*, Aug. 16, 2019.
<https://globalworkplaceanalytics.com/telecommuting-statistics> (Last visited March 2, 2020)

²⁴ *Id.*

²⁵ *Id.*

²⁶ <https://docs.house.gov/billsthisweek/20200302/BILLS-116hr6074-SUS.pdf>

²⁷ *Id.*

²⁸ Lisette Voytko, *Trump Proposes 16% Cut to CDC As Global Number Of Coronavirus Infections and Deaths Rise*, FORBES, Feb. 11, 2020. <https://www.forbes.com/sites/lisettevoytko/2020/02/11/trump-proposes-16-cut-to-cdc-as-global-number-of-coronavirus-infections-and-deaths-rise/#6df391b218da> (Last visited March 2, 2020)

²⁹ *Id.*

U.S. contributions by \$65 million, or over 40 percent.³⁰ For overall global health programs, the administration is proposing a 34 percent reduction but asking for a \$115 million carveout for global health security for the purpose of combatting “infectious disease threats.”³¹

Outbreak Response

The administration has responded to the threat of a coronavirus outbreak with a number of travel restrictions and advisories including China, Iran, and Italy. In late January, it convened a taskforce headed by Sec. of HHS, Alex Azar. However, the entire government infrastructure built by both Bush and Obama administrations to prepare for a pandemic has been dismantled. In 2018, the current administration fired the government’s entire pandemic response chain of command. It has also cut overall CDC funding, decreasing the U.S. involvement in controlling potential pandemics around the world.³² To address the gap, CDC has broadened testing guidelines and expanded the ability of federal labs to test for it.

Conclusion

Policy makers must keep in mind the impact Coronavirus is having on the nation’s small businesses. Volatile financial markets, disrupted supply chains, declining tourism, and xenophobia caused by the pandemic have the potential for creating lasting harm for small firms. This hearing will offer an opportunity to discuss these problems and determine whether further action is needed to counteract the growing health concerns and impact on our nation’s small businesses.

³⁰ *Id.*

³¹ *Id.*

³² Sun, Lena, *CDC to cut by 80 percent efforts to prevent global disease outbreak*, WASHINGTON POST, February 1, 2018, <https://www.washingtonpost.com/news/to-your-health/wp/2018/02/01/cdc-to-cut-by-80-percent-efforts-to-prevent-global-disease-outbreak/>