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Impact of the COVID-19 Pandemic on India and it's Neighbouring Countries: An MSME Perspective

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ABSTRACT

The COVID-19 pandemic triggered an unprecedented global economic disruption, leading to sharp contractions in output, employment, and cross-border economic activity. While the global economic effects of the pandemic have been widely documented, comparatively less attention has been devoted to its differentiated impacts on India's neighbouring countries, particularly from a Micro, Small, and Medium Enterprises (MSMEs) perspective. This study examines the pandemic's economic impact on selected neighbouring countries of India, with a specific focus on MSMEs, which play a crucial role in employment generation and economic activity across the region. Using secondary data from international statistical sources and country-level reports, the study analyses cross-country variations in GDP growth performance and documented disruptions faced by MSMEs during the pandemic period. The findings reveal substantial heterogeneity in the depth of economic contraction and recovery patterns across countries, reflecting differences in sectoral dependence, exposure to external shocks, and policy responses. The study contributes to a region-specific understanding of the pandemic's economic consequences and underscores the importance of strengthening MSME resilience to enhance preparedness for future systemic shocks.

KEYWORDS: *COVID-19 pandemic; MSMEs; economic impact; India's neighbouring countries; employment; economic recovery.*

INTRODUCTION

The COVID-19 pandemic originated in late 2019 and rapidly spread across the globe, leading the World Health Organization to declare it a global pandemic in March 2020. With an estimated 7.1 million confirmed deaths worldwide, COVID-19 stands as the most severe large-scale global calamity of the 21st century, with a mortality impact exceeding recent global crises and comparable only to historic events such as HIV/AIDS, the Spanish influenza pandemic, and World War II. (Wikipedia) What began as a public health emergency quickly evolved into a global economic crisis, triggering an unprecedented economic recession in an increasingly globalized and interconnected world. (Ozili and et.al, 2020)

The pandemic had a severe global economic impact, causing the world's GDP to shrink by 3.4% in 2020, amounting to over $2 trillion in lost output from a total GDP of $84.9 trillion. Travel and tourism were among the hardest-hit sectors due to international border closures and flight restrictions, while e-commerce surged as consumers turned to online shopping amid lockdowns—evidenced by Amazon's record sales in 2020 and 2021. The pandemic's impact varied by region: China recorded nearly 5% GDP growth in Q3 2020, while the UK saw an 8% decline. In Asia, East Asia experienced a marginal 0.2% growth, whereas South Asia contracted by 7.7%, reflecting differences in pandemic response effectiveness and the timing of reopening. The global labor market was also severely impacted by the pandemic, with unemployment rising from 5.6 percent in 2019 to 6.6 percent in 2020, reflecting widespread job losses. However, as countries began to recover, unemployment gradually declined to 6.1 percent in 2021, 5.3 percent in 2022, and further to 4.7 percent in 2023, signaling a steady rebound in employment worldwide. (Statista) Given the scope of the present study, the analysis is confined to examining the impact of the COVID-19 pandemic on Micro, Small and Medium enterprises (MSMEs) in India and it's neighbouring countries, namely Pakistan, Afghanistan, China, Nepal, Bhutan, Bangladesh, and Myanmar, along with its maritime neighbours Sri Lanka and Maldives.

A comparative survey of SAARC nations—Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka— examined the trade-off between COVID-19 health containment measures and their economic and livelihood impacts across South Asia. The findings indicate that, unlike developed economies, South Asian countries faced a pronounced conflict between public health policies and economic stability during the pandemic. The suspension of economic activity due to stringent COVID-19 containment measures—such as nationwide and regional lockdowns and border restrictions—led to widespread unemployment and pushed millions into poverty, hunger, and food insecurity. Several SAARC countries, including Pakistan, Nepal, and parts of India, were identified as being at high risk of severe economic shock during the pandemic, with all experiencing notable increases in unemployment. Bhutan recorded the largest rise in unemployment despite an effective health response, largely due to the loss of nearly one-third of jobs in its tourism sector. Similarly, the Maldives, heavily reliant on tourism, experienced the sharpest decline in real GDP growth, coinciding with high COVID-19 infection and mortality rates. Nepal registered the second-highest increase in unemployment, corresponding with high infection levels and elevated mortality, while India ranked third in terms of the percentage increase in unemployment and recorded the second-largest decline in the rate of real GDP growth, corresponding with the second-highest COVID-19 disease burden in the region. In contrast, Pakistan experienced the third-lowest rise in unemployment and the smallest decline in GDP growth, consistent with its relatively lower COVID-19 burden. Pakistan's comparatively better economic outcomes have been attributed to targeted, time-bound, and localized lockdown measures, where policy stringency closely followed infection trends, thereby limiting broader economic disruption.

(Irfan and et.al, 2023) The pandemic-induced economic slowdown translated into significant labour market distress and outward migration pressures in Bhutan. National unemployment rates, which averaged around 2.8% between 2015 and 2019, nearly doubled to 5.9% by 2022, with the sharpest increases observed among urban youth and the educated population. Following the reopening of international borders in mid-2022, outward migration surged dramatically—from fewer than 500 emigrants per month before the pandemic to over 5,000 per month in early 2023. This wave of emigration has been attributed to limited domestic job opportunities, rising competition for civil service posts, and external pull factors such as Australia's relaxation of visa restrictions to address its own labour shortages. While the resulting remittance inflows may temporarily ease household incomes, policymakers have raised concerns over potential long-term "brain drain," which could hinder Bhutan's goals of economic diversification and the development of knowledge-intensive industries reliant on skilled human capital. (World Bank, 2024) Furthermore, Afghanistan's unemployment rate also rose sharply from **12.08% in 2021 to 16.34% in 2024**, indicating worsening economic conditions and increasing job insecurity amid prolonged uncertainty. (Data for Afghanistan) Myanmar initially remained relatively less affected by COVID-19 compared to other Southeast Asian nations; from its first confirmed case on 23 March 2020 to 25 August 2020, infections stayed below 500, but surged by 600% to 30,437 cases by 14 October. The pandemic triggered strong supply and demand shocks, severely affecting manufacturing, trade, tourism, and services, while construction saw relatively milder contraction and ICT services showed resilience. Goods trade growth slowed to 2.82% in FY 2019/20, down from 4.46% in FY 2018/19; despite being 18% higher in the first half, disruptions reduced annual growth to about 3%. Border closures with China and Thailand disrupted agriculture and garment supply chains; exports grew 4.98% (US$0.79 bn) and imports 0.9% (US$1.16 bn), improving the trade balance, yet exports fell from 15.3% to 13.1% of GDP, with garments, rubber, and latex most affected due to weak European demand. (UN, 2020)

RESEARCH GAP AND OBJECTIVE

Although several studies have examined the economic consequences of the COVID-19 pandemic at the global and national levels, limited attention has been given to a comparative analysis of its impact on Micro, Small and Medium enterprises (MSMEs) in India's neighbouring countries. Despite their critical role in employment generation and economic stability, MSMEs remain relatively underexplored in a cross-country regional context. Consequently, a research gap exists in understanding the differential impact of the COVID-19 pandemic on MSMEs across neighbouring economies. The present study seeks to analyse the specific effects of the pandemic on MSMEs in these countries and to compare the extent of disruption and recovery across the region.

METHODOLOGY

This study uses a descriptive and comparative approach based on secondary sources, including reports, government publications, interntational reports, statistical databases, and scholarly articles. Key indicators such as GDP growth rate are analysed to assess the impact of COVID-19 and compare the extent of disruption and recovery across MSME in India and its neighbouring countries.

RESULTS

Table 1 and figure 1 shows the real GDP growth rates of India and its neighbouring countries, highlighting the significant economic disruption caused by the COVID-19 pandemic and the varying extent of contraction and subsequent recovery across the region. Both **Bangladesh** and **China** maintained positive GDP growth throughout the pandemic, with Bangladesh slowing from 7.9% in 2019 to 3.5% in 2020 due to COVID-19 disruptions before rebounding to 6.9% in 2021, while China experienced a slowdown to 2.3% in 2020 followed by a strong recovery of 8.6% in 2021, reflecting resilience and relatively rapid post-pandemic growth. **Nepal**'s GDP declined by 2.4% in 2020, reflecting the impact of extended lockdowns, before recovering to 4.8% in 2021, while **Pakistan** experienced a milder contraction of 1.3% in 2020 and a rebound to 6.5% in 2021, aided by targeted, localized lockdowns that mitigated economic losses.

Bhutan saw a severe contraction of 10.2% in 2020, largely due to the collapse of its tourism sector, followed by a modest recovery of 4.4% in 2021. **Afghanistan** and **Myanmar** faced the steepest downturns in 2021, with GDP declining by 20.7% and 12%, respectively. In Afghanistan, this was driven by the Taliban takeover and suspension of international aid, which severely disrupted economic activity. In Myanmar, the sharp decline reflected political instability following the February 2021 military coup, compounded by ongoing COVID-19 disruptions. **Sri Lanka**'s GDP contracted by 4.6% in 2020 and recovered moderately to 4.2% in 2021 as the economy adapted to pandemic-related constraints. In contrast, the **Maldives** experienced extreme volatility, with GDP plunging 32.9% in 2020 due to the collapse of tourism, followed by a sharp rebound of 37.5% in 2021 as international travel partially resumed. **India**'s GDP declined 5.8% in 2020 amid strict nationwide lockdowns and a high COVID-19 burden, before bouncing back to 9.7% in 2021 with the resumption of economic activity.

Overall, the data highlight **heterogeneous impacts across the region**, with countries heavily dependent on tourism or facing political instability experiencing the steepest contractions, while those implementing targeted lockdowns or with resilient domestic demand rebounded more quickly.

Table:1 Real GDP Growth Rates of India and Neighbouring Countries

Country	2019	2020	2021
Bangladesh	7.9	3.5	6.9
China	6.1%	2.3%	8.6%
Nepal	6.7%	(-2.4%)	4.8%
Pakistan	2.5%	(-1.3%)	6.5%
Bhutan	5.8%	(-10.2%)	4.4%
Afghanistan	3.9%	(-2.4%)	(-20.7%)

Myanmar	6.6%	(-9.1%)	(-12%)
Maldives	6.9%	(-32.9%)	37.5%
Srilanka	(-0.2%)	(-4.6%)	4.2%
India	3.9%	(-5.8%)	9.7%

Source: https://econscope.com/economies/overview/gdp-real

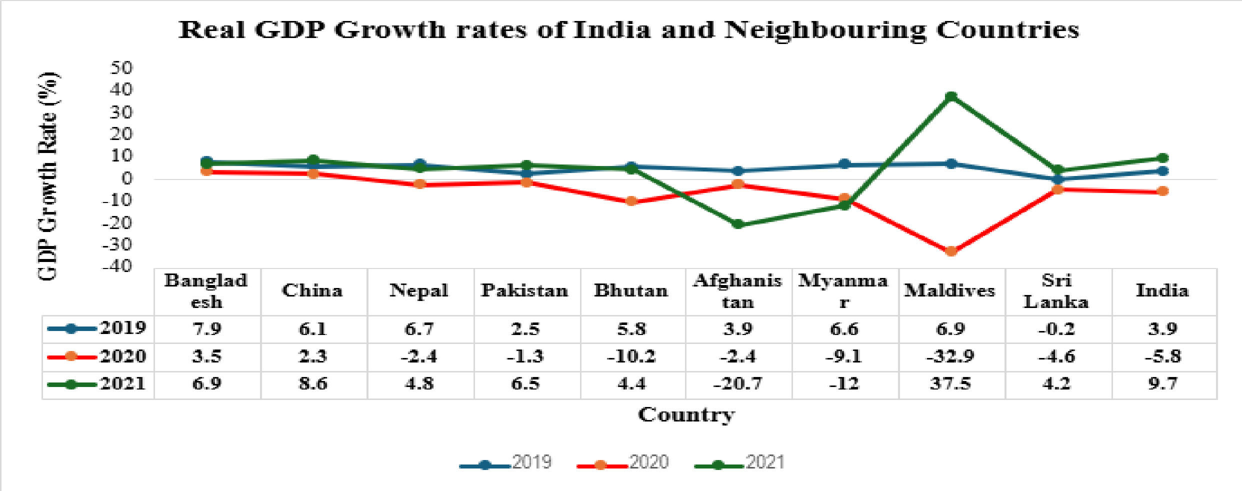

Figure 1: Real GDP Growth Rates of India and Neighbouring Countries

Impact of Pandemic on MSMEs of India and it's Neighbouring Countries

Micro, small and medium enterprises (MSMEs) are vital to the South Asian economy, accounting for nearly **70% of total employment** and contributing about **47% to regional GDP**, while supporting a large number of households. Early evidence indicates that MSMEs were disproportionately affected by the COVID-19 pandemic, and despite their critical role in regional and global supply chains, they remain highly vulnerable to supply-chain disruptions and external economic shocks. (UNICEF, 2021)

The nationwide lockdown in **Bangladesh** from March to May 2020 forced many businesses to shut down, causing widespread revenue losses and unemployment. Among the most affected were micro, small, and medium-sized enterprises (MSMEs), including cottage industries, which make up 99.97% of all enterprises and employ around 86% of the labor force. These sectors, though vulnerable, demonstrated strong resilience. A joint survey by BRAC Institute of Governance and Development (BIGD) and Monash University in July 2020, involving 1,960 MSMEs (mostly in light engineering), found that sales plummeted by 76%, operating costs declined by 52%, and profits fell by 96% during the lockdown. Although post-lockdown business activity picked up—sales rose by 89% and profits surged by 179% compared to the lockdown period—profits remained below pre-pandemic levels. Service sectors requiring physical interaction, like tailoring and beauty salons, were hit hardest due to social distancing challenges and reduced demand. Firms with greater capital experienced smaller sales declines, highlighting capital's protective role during crises. The primary challenges MSMEs faced included reduced demand for non-essential products, lack of operational funds, and zero income during shutdowns. Firms adapted by raising prices, seeking alternative procurement methods, and delaying deliveries. Another BRAC Bank survey conducted via phone (Nov–Dec 2020) with 6,030 responses revealed that only 20–30% of MSMEs remained operational during lockdown, but by December 2020, 99% had reopened. Sales during the peak lockdown months dropped by nearly half, with the worst-hit sectors being textiles, auto parts, steel, and leather. By the end of 2020, sales had recovered to 73% of pre-pandemic levels. Many MSMEs attempted cost-cutting (60%) and considered bank loans (20%) to revive operations, but only 7% explored digital or e-commerce solutions. The pandemic disproportionately affected women-owned MSMEs, which reported greater declines in income and access to funding. Moreover, there was low awareness of government support programs, pointing to the need for more effective outreach and targeted support to revive and strengthen this crucial sector of the economy. (ADB,2021)

COVID-19, a global health crisis, which originates from **China** had severe economic consequences, especially for small and medium-sized enterprises (SMEs). By June 2021, over 171 million infections and 3.68 million deaths were reported worldwide. The pandemic disrupted production, reduced demand, and created logistical and employment challenges, severely impacting SMEs due to their limited scale and risk resilience. In China, where SMEs constitute over 90% of firms, contribute 60% to GDP, and employ 80% of the urban workforce, their vulnerability drew significant concern. In response, the Chinese government introduced early measures such as financial aid, tax relief, and support policies to stabilize and assist SMEs during the crisis. (Sun and et.al., 2022) While the government's response offered some relief, the practical difficulties encountered by SMEs continued to escalate. The pandemic created major challenges for SMEs in China. Funding became a critical issue as income declined sharply and most businesses relied heavily on the personal assets of their owners. Lockdowns and strict health measures worsened financial strain, especially for sectors like cultural tourism, catering, real estate, and transportation. Import-export disruptions severely impacted the electronics and mechanical industries, which depend on Japanese and South Korean raw materials and components. Companies like Panasonic, SONY, and Samsung play a vital role in China's supply chains, and delays in trade hurt these sectors significantly. The resumption of work was difficult in many regions due to citywide lockdowns, forcing SMEs to pay fixed expenses like wages and rent despite being shut down. Additionally, rising production costs and reduced demand further burdened SMEs, particularly those without complete supply chains, resulting in increased prices and shrinking consumer interest. Despite the widespread challenges, certain SMEs were able to adapt and benefit during the pandemic. Enterprises involved in the production of medical devices, PCR tests, masks, disinfectants, and raw materials for protective equipment experienced increased demand. Some SMEs shifted operations to meet these needs, turning crisis into opportunity. While many firms exited the market, new ones emerged to fill evolving demands. (Wang, 2023)

The GDP of **Nepal** is driven by agriculture (26.4%), manufacturing (12.5%), and a dominant services sector (61.1%). Among the most affected were micro, small, and medium-sized enterprises (MSMEs), which contribute 22% to GDP and employ 2.8 million people. Following a nationwide lockdown from March to July 2020, 61% of MSMEs remained closed and only

4% operated at full capacity. While conditions improved by December with 54% fully operational small and cottage industries continued to lag behind larger firms. Sales across MSMEs plummeted, with over 95% reporting reduced transactions, and only half of pre-pandemic business levels restored by year-end. Hotels, restaurants, education, and real estate were slowest to recover, while agriculture and utilities rebounded more quickly. MSMEs also faced job cuts, operating with only 77.5% of pre-pandemic staff in July, rising to 87.5% by December. Limited demand, cash flow shortages, and poor access to loans further strained their recovery, especially for informal and unregistered enterprises not captured in official data or government support schemes. (ADB, Pg- 120)

Pakistan experienced three waves of COVID-19 between March 2020 and May 2021, which severely disrupted its economy. The pandemic led to a GDP loss of PRs 2.5 trillion and 20.6 million job losses between April and July 2020, with an additional 6.7 million people losing some income. According to the Pakistan Economic Survey and ADB, the economy contracted by 0.5% in FY2020. Data from the Pakistan Bureau of Statistics indicated that after the first wave, 18.4 million people resumed work, while over 2 million remained unemployed, with later estimates suggesting 4–5 million job losses overall. The MSME sector was among the hardest hit. A SMEDA survey (April 2020) of 920 SMEs found that 95% reported reduced work, 92% faced supply chain disruptions, and 73% temporarily closed, while 27% partially halted operations. Export orders dropped by 23%, and 89% of SMEs experienced financial stress—losses in revenue, cash flow, or access to credit. Due to these challenges, nearly 48% of SMEs had to lay off workers, with the services and manufacturing sectors being the most affected. A follow-up survey (Aug–Sep 2020) revealed continued struggles: reduced sales, cash shortages, weak domestic demand, and widespread supplier and customer closures. Only 25% of SMEs received government aid, mainly limited to utility payments, while many were excluded due to informal status or lack of awareness. The crisis exposed structural weaknesses in Pakistan's MSME sector, including limited financial resilience, informality, and lack of crisis preparedness.(ADB, 2021 Pg-159)

The pandemic inflicted considerable disruption on **Bhutan's** MSME landscape, which accounts for an overwhelming share of enterprise activity and employment. According to the Diagnostic Trade Integration Study, MSMEs constitute about 95% of all business enterprises in the country and nearly 49% of them are in the services sector (where tourism, hospitality and related activities are concentrated). (DTISU, 2020 Pg. 147) Rapid-assessment work by United Nations Development Programme (UNDP) during April 2020 found that among service-tourism-linked micro-enterprises supplying hotels, travel agencies and guide services, almost one-third had lost their jobs or were placed on unpaid leave, and about three in four households experienced an income collapse of 50–100 %. (UNDP, 2020) These dual studies emphasise that the MSME sector's key exposure to tourism, the small scale of many firms, limited access to formal credit (given high collateral requirements) and shallow coping-capacity rendered it particularly vulnerable. The lack of financial buffers, disruptions in supply chains (especially for imported inputs and foreign labour), and sharp declines in demand translated into widespread closures and employment losses in the MSME space.

Sectoral disparities were evident in Bhutan's economy during the COVID-19 pandemic. The service sector (46.36% of GDP) contracted by 10.74% due to disruptions in tourism, transport, and trade, while the industrial sector (34.41% of GDP) recorded the steepest decline of 13.10%, driven by supply-chain disruptions, labour shortages, and weak external demand, particularly from India. In contrast, the primary sector (19.23% of GDP) remained resilient, growing by 4.57%. (National Statistics Bureau) Hydropower provided partial support following the commissioning of the Mangdechhu Hydroelectric Power Plant, with higher hydro exports offsetting declines in non-hydro exports. Overall, the pandemic led to uneven sectoral impacts, with service and industry-led activities most vulnerable to external shocks. (World Bank,2021)

MSMEs play a crucial role in **Afghanistan's** economy, contributing about 50% of GDP, 33% of total employment, and accounting for nearly 80% of all business enterprises in the country. By mid-May 2020, COVID-19 had spread across all Afghan provinces, generating a severe shock to the industrial and MSME sector, consistent with UNIDO's evidence of widespread contraction in industrial activity. A UNIDO survey of 132 firms conducted during May–June 2020 found that 90% experienced business disruptions, with small, medium, and low-tech firms most affected. About two-thirds of firms reported that more than half of their workforce could not report to work, disproportionately impacting women. Acute cash-flow and input shortages were reported by 92% of firms, while 87% were unable to pay wages and 75% struggled to meet fixed costs and rent. Firms anticipated revenue losses of around 50%, nearly half considered layoffs, and 60% feared non-survival if restrictions persisted beyond six months. Firms primarily sought tax and rent relief, lower utility costs, and export tax reductions, highlighting the need for targeted fiscal and liquidity support (UNIDO, 2021)

The pandemic affected key employment-generating sectors unevenly. The carpet industry, which accounts for nearly 45% of exports and employs over one million workers, experienced severe disruption, with exports declining by around 30% by August 2020 and wages falling by more than 50%, disproportionately affecting home-based and female workers. The construction sector, contributing about 10% to GDP and employment, was largely halted from April 2020 due to lockdowns and the closure of foreign military bases, resulting in sustained losses for both large firms and MSMEs. In contrast, agriculture and agribusiness, which support a majority of the population and are dominated by MSMEs, showed signs of recovery after initial disruptions. Within agriculture, 67.5% of those engaged are smallholders, while related agribusiness activities such as livestock and agri-processing also have a high concentration of SMEs, with recovery aided by easing lockdowns, international support measures, and the resumption of trade particularly with India by mid-2020.

Another survey of 380 enterprises conducted in August 2020 revealed that 88% experienced declining sales due to COVID-19–induced uncertainty, while 64% of workers were employed in enterprises facing a high risk of liquidity shortages and potential closure. Additionally, 61% of firms expected further sales declines of up to 28% over the subsequent three months, with 38% identifying border closures and disruptions to the movement of inputs and finished goods as a key cause. MSMEs, which constitute a large share of enterprises in Afghanistan, were particularly affected by these shocks. In the early phase of the pandemic, restrictions severely disrupted food distribution MSMEs, contributing to shortages and rising prices of essential food items. Approximately 40% of wholesale vegetable markets faced disruptions, while 50% of agricultural street vendors ceased operations by May 2020. These challenges were compounded by Afghanistan's reliance on wheat imports from Kazakhstan, which accounted for 72% of total wheat imports in 2018. As a result, food prices rose sharply, with wheat prices increasing by 15% and cooking oil prices by 9% between December 2019 and March 2020, potentially reducing children's access to nutritious food due to both availability and affordability constraints. Despite these challenges, evidence on the adoption of alternative sales and service delivery channels by SMEs in Afghanistan remains limited. Low internet penetration, at only 11% of the population, combined with ongoing geopolitical tensions, continues to constrain access to digital platforms and poses a major barrier to the development of a resilient digital ecosystem for SMEs. (UNICEF, 2021 Pg-75)

Micro, small and medium enterprises (MSMEs) form the backbone of **Myanmar's** economy, accounting for 99% of formally registered enterprises and generating substantial employment. An estimated 95% of MSMEs were directly or indirectly affected by COVID-19, with business earnings declining by 40–60% on average due to reduced demand, rising input prices, and supply-chain disruptions. Rapid restoration of trade, along with access to credit and cash transfers, is considered essential for MSME survival. (UN, 2020) To assess the pandemic's impact on wood-based MSMEs, a nationwide survey was conducted in August 2020 by the European Forest Institute and the Sagawa Institute among 141 enterprises affiliated with the Wood-Based Furniture Association (WBFA) and Myanmar Arts and Craft Association (MACA). The sample comprised 34% micro, 38% small, and 17% medium enterprises, with 72% male-owned and 9% female-owned firms. The findings reveal severe disruption: 33.6% of enterprises closed permanently, while 65.2% temporarily suspended operations, with micro firms comprising about one-third of permanent closures. Revenue losses were substantial, with 30.5% reporting declines of 50–75% and 19.2% facing losses of 75–100%. Employment was also affected, as 17% of firms reduced their workforce by 50–75% and 15.6% by 25–50%. Additionally, 69.5% of enterprises reported low customer demand, 45% faced distribution constraints, and nearly half experienced raw-material shortages, including 24.8% reporting reductions of 75–100%. Limited access to emergency government loans further constrained recovery, with around 40% unable to access credit and 30% receiving only partial support. (European Forest Institute, 2020) The food and beverage (F&B) industry also faced severe setbacks, with two-thirds of enterprises operating below 80% capacity and over one-third reporting a fall of at least 50%, largely due to reduced customer access, financial strain, and limited government or industry support. (WWF, 2021)

The COVID-19 crisis dealt a swift and severe blow to employment in the **Maldives,** with tourism employing 45,000 people shutting down first due to border closures in February 2020. Over 7,500 complaints were filed, mostly from tourism and transport workers, many in low-paying service roles. Across sectors, 44% faced job loss, 24% unpaid leave, and 32% partial pay; in tourism, 96% were initially retained with reduced pay, but 1,800 mostly on probation were terminated. Incomes plunged sharply, with most workers losing MVR 5,000–14,999 ($324–$973) per month, and tourism staff earning an average of MVR 12,480 ($809) pre-COVID hit hardest. Resort workers lost up to 70% of earnings as service charges, which formed over 40% of income, collapsed. Tourism's slow recovery threatens more layoffs, with vulnerable groups—including youth, migrant workers, freelancers, and especially women bearing the brunt. Women faced higher redundancy and income loss, often due to lower-paying occupations and fewer years of work experience, putting them at risk of long-term exclusion from the labour force.

The assessment, drawing on BCC survey data from over 2,000 businesses, secondary reports, MSME interviews, and industry consultations, found that tourism services and related support sectors were the first hit by border closures, followed by formal and informal MSMEs in Greater Malé facing lockdown restrictions. Inter-island travel limits caused major supply disruptions, with 67% of trade businesses affected, largely due to sea (53%) and airfreight (46%) issues, worsened by reliance on Greater Malé and lack of regional storage. Over 80% of tourism-related MSMEs shut down temporarily between March–July 2020, and only 19% continued with modified operations. Operating costs were dominated by salaries, utilities, and rent, with 19% of businesses incurring extra expenses for PPE, sanitizers, and delivery services. Loss of sales and revenue was widespread—87% reported declines, with 58% of closed businesses losing all income and open ones facing 30–80% reductions. Nearly all businesses reported cashflow problems, especially in trade and food sectors, with 57% already struggling and most able to sustain operations only for 1–3 months. Employment adjustments were significant, with 43% of businesses terminating 372 full-time employees—mainly expatriates, probation staff, and casual workers and imposing 20–50% pay cuts or sustenance allowances on retained staff. Migrant workers, probation employees, freelancers, and other vulnerable groups bore the brunt of these impacts. (UNDP,2020)

The COVID-19 pandemic struck an already weakened **Sri Lankan** economy, which had slowed from 5.0% growth in 2016 to 2.3% in 2018 due to high public debt burden, fiscal consolidation measures, weak export performance, low private investment, and recurring climate-related shocks. Growth slowed sharply in 2019, turning marginally negative as structural weaknesses and external vulnerabilities intensified. The economic situation deteriorated further in 2020, when GDP contracted by about 4.6 per cent due to the COVID-19 pandemic and disruptions to tourism, trade, and domestic activity. A temporary recovery was observed in 2021, with GDP growing by approximately 4.2 per cent as economic activity resumed. However, this rebound was short-lived, and in 2022 the economy experienced a severe contraction of about 7.3 per cent amid a deep macroeconomic crisis marked by debt distress, foreign exchange shortages, and inflationary pressures. (Macrotrends) The MSME sector, which make up 99% of all enterprises and employ 75% of the workforce was severely hit. A government survey of over 17,000 MSMEs revealed steep drops in revenue—40.9% in March, 74.2% in April, and 55.2% in May 2020—and employment—38.5%, 82.0%, and 66.7% for the same months, respectively. Sectors like mining, construction, and services saw revenue declines of up to 90.7% and job losses exceeding 85% in April. Another survey by Federation of Chambers of Commerce and Industry of Sri Lanka (FCCISL) in July–September 2020 showed that 89% of MSMEs faced slowed operations, especially in tourism and construction, and 17% reported temporary or permanent closures. Export-oriented firms suffered more than domestic ones due to order cancellations and supply chain disruptions. Despite limited access to formal finance, 80% of MSMEs sought additional funding, often relying on informal sources. Women-owned businesses were less likely to adapt digitally and more dependent on personal networks for finance. Tourism, already impacted by the 2019 Easter attacks, saw revenues fall from $4.4 billion (2018) to $3.6 billion (2019), and tourist arrivals dropped almost 100% in April 2020. However, some sectors like processed food and protective garment manufacturing saw increased demand and modest gains during the lockdown. (ADB, 2021 PG-191)

The whole **Indian** Economy suffers a major setback during this period. The overall rate of contraction in India's GDP was 7.3% for the whole 2020/21 financial year (Dhingra & Ghatak, 2021) When the nationwide lockdown began in 2020, India's economy was jolted severely, with MSMEs bearing the harshest blow—particularly micro and small enterprises. Business incomes collapsed, jobs were lost at an alarming pace, and unemployment surged from 9.4% in March to 23.5% in April and 21.7% in May, as reported by the Centre for Monitoring Indian Economy. Urban India suffered more than rural areas, with joblessness spiking to 25% in cities compared to 22.9% in villages. Informal MSME sectors faced the sharpest decline, while only those supplying essential goods and services managed to stay afloat. The distress was captured in several studies: Magma Fincorp's May 2020 survey of 14,444 MSMEs found that nearly half experienced a 20–50% fall in earnings, regardless of whether they produced essential or non-essential goods. Similarly, a CRISIL study highlighted that microenterprises—holding 32% of MSME debt—were the most vulnerable, struggling with shrinking revenues, tighter margins, and growing working-capital pressures.

The gravity of the situation was further underscored in a Rajya Sabha report (August 2021) based on assessments by the National Small Industries Corporation (NSIC) and the Khadi and Village Industries Commission (KVIC). While 91% of MSMEs were still operational, 51% grappled with liquidity constraints and 17% with dwindling orders. KVIC's study revealed that 88% of units under the Prime Minister's Employment Generation Programme suffered setbacks, with 57% forced to close temporarily and 30% seeing reduced production and revenues. In Tamil Nadu—home to 7.8% of India's MSMEs—a survey by the Indian Institute of Technology (May–June 2020) reported that 78% of MSMEs shut down temporarily, with micro and small firms forming the majority; alarmingly, 74% of them endured revenue losses of more than 80%. Sectoral analyses deepened the picture: the Reserve Bank of India (RBI) identified hospitality, tourism, automotive, and aviation as the hardest-hit, while consultancy HVS Anarock reported hotel occupancy crashing to 10% in April 2020, recovering only slightly to 26% by September, with industry losses pegged at ₹900 billion and recovery expected only by 2024. Adding to this, a FICCI survey (June–July 2020) of 248 hotel and tour operators across 24 cities found that 58.4% had shut operations entirely, while a few stayed open as quarantine centers or food delivery hubs, even housing 1.7 million repatriated Air India passengers. Just as businesses began adjusting, the second wave in March 2021 brought a fresh shock, with over 30 states and union territories reimposing strict lockdowns, further threatening the already fragile survival of MSMEs despite the absence of a nationwide shutdown. (ADB, 2021)

CONCLUSION

The COVID-19 pandemic exposed the deep structural vulnerabilities of MSMEs across India and its neighbouring countries, despite their central role in employment generation, income support, and GDP contribution. Across South Asia, MSMEs experienced sharp declines in demand, severe revenue losses, supply-chain disruptions, workforce reductions, and acute liquidity shortages, with micro and informal enterprises suffering the most. Economies heavily dependent on tourism and services—such as the Maldives, Bhutan, Sri Lanka, and Nepal—faced prolonged disruptions, while manufacturing- and trade-oriented MSMEs in countries like India, Pakistan, Bangladesh, China, and Myanmar struggled with lockdowns, rising input costs, and interrupted imports and exports. Although limited recovery was observed following the easing of restrictions, most MSMEs failed to regain pre-pandemic performance levels, particularly women-owned and informal enterprises that faced greater barriers to finance and digital adoption. The crisis highlighted the need for resilient MSME ecosystems supported by timely credit access, effective government outreach, digital integration, and targeted policy interventions to withstand future economic shocks and ensure inclusive and sustainable recovery.

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