"More long-term investments on digital and social infrastructures and arrangements are necessary to encourage business digitalization and remote working."

– Hang DANG MINH, The Australian National University, Canberra

Image Source: Cellphone and computer reparation, connecting people in Bamako, Mali, and in Genoa, Italy. Images by Nicolas J.A. Buchoud, all rights reserved ©.

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The COVID-19 crisis: Business responses and policy implications

The unprecedented COVID-19 pandemic has affected workers and businesses in every economy around the world both in the short run and long run. A World Bank report finds that 84% of respondents in its enterprise survey report a sale drop between 60% and 75% on average in the first four weeks after the peak of the outbreak.[1] 94% of the global workforce is living in countries with some sort of workplace closures in place that creates disruption to business operation.[2]

In response, most firms adjust workforce such as hiring freeze, furlough, reducing wages and working hours, and layoffs. Firms in accommodation sector has the highest probability of granting leaves (52%) and reducing wages (32%). With respect to firm size, large firms are more likely to furlough and lay off workers than small-and-medium enterprises (SMEs) by approximately 15% and 9% respectively. Past research find that small firms may have more flexibility in adjusting to downturn quickly by exploiting market niche and less relying on formal credits than larger firms, thus less subject to sunk costs.[3] However, SMEs are likely to be more vulnerable to financial constraints and have less cash at hands to cover the costs during the crisis compared to larger firms even in advanced economies.

Firms also respond by promoting working-from-home. In the US, researchers find that roughly 42% of the labour force is working from home fulltime because of the pandemic, representing over two-third of economic activities.[4] In an ILO policy brief, studies estimate jobs that can be done remotely is over 26% for Argentina, between 20% and 34% for Uruguay, 24% for Italy, 28% for France, 29% for Germany, 25% for Spain, and 31% for the UK.[5]

Digital transformation allows firms to access new channels of selling and advertising products and reaching a broader customer base. The OECD reports that COVID-19 is accelerating e-commerce market expansion to new firms, customers and more diverse product type from luxury goods to essential necessities, and the shift is likely to be long-lasting.[6] The surge in e-commerce activities were significant across regions including Europe, North America and Asia-Pacific during the first half of 20206. However, the uptake in e-commerce differs among countries, e.g. the increase in businesses using online platforms ranges from 11% in Ghana to 81% in Indonesia, depending on digital infrastructure availability.

To build a “better normal”, businesses need government assistance to avoid layoffs, cut costs and invest in technologies. Governments around the world have provided access to finance/tax and other relief in many forms such as direct cash transfer, tax cut, loan extension, etc. as immediate responses to ease financial constraints and improve liquidity, particularly for vulnerable SMEs group. More long-term investments on digital infrastructure, social infrastructure and arrangements are necessary to encourage business digitalization and remote working. Policymakers may also ensure social protection for all, and provide training and skill development for unemployed and marginalized workers. Going forward, governments may combine short-term solutions with long-term structural stimulus to build a more inclusive and resilient economy.

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