

IPS  
Class

IMPACT OF COVID-19 ON  
BUSINESSES

Implications for Industrial Policy  
for SMEs

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**The coronavirus has spread around the world**

**In late-April 2020, there were more than 3 million people infected and death toll at about 200,000**

**Almost every country in the world has been affected, but the impact has been asymmetrically distributed**

Most affected countries are the USA, Italy, Spain, France and the UK (to date)

Some countries are experiencing acceleration of the diffusion: India and some countries in Africa

Others seem to have controlled the pandemic: China, Germany and Austria for instance

Some countries had pandemic under control but experienced resurgence (Singapore)

# How will the situation evolve?

→ Difficult to predict

A second wave of pandemic might arise in autumn 2020

Some countries might experience resurgence as they lift restrictions

Research to develop a vaccine is going on in order to provide a barrier to infections (expected early 2021: once available, situation will return to normal)

# 1. Effect of coronavirus on industry

About half the world population was in confinement in April 2020

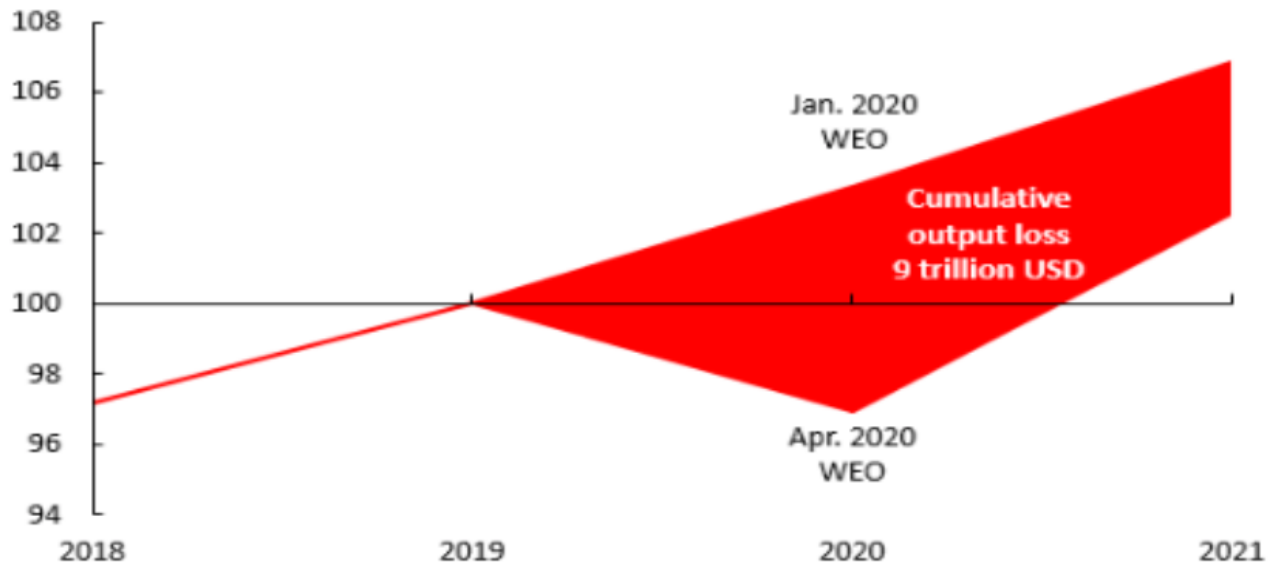
- ➔ Sudden halt in productive activities in most sectors
- ➔ Large output loss: the IMF estimates that the cumulated output loss over 2020 to 2021 could reach 9 trillion dollars

## Output losses

<https://blogs.imf.org/wp-content/uploads/2020/04/eng-apr-12-weo2.png>

Output loss over 2020 and 2021 from the pandemic crisis could be around 9 trillion dollars.

(global real GDP level, index)



Sources: IMF, *World Economic Outlook*; and IMF staff calculations.

In the USA, the virus has put a halt to a long period of growth lasting a decade, and GDP has fallen by 4.8% in the first quarter of 2020 relative to the same quarter in 2019.

GDP has fallen by 3.8% in the EU according to an estimate by Eurostat on 30 April 2020.

Germany expects the worst recession since 1970, with expected fall in GDP by 6.3%

Italy: Fall in GDP of about 4.8% in the first Q

France: - 5.8%; Spain: - 5.2%

China: - 6.8%

(evolution on a yearly basis)

# Effects on employment

- Unemployment has generally not risen (yet): production has stopped so employees result inactive (in productive sectors where online working, i.e. smart working, is not possible)
- Unemployed people have stopped looking for a job
- Effects on job losses are expected in the second half of 2020 (as some businesses will not be able to restart production)



# **EFFECTS DIFFER ACROSS INDUSTRIES**

Here industry = any productive activity, including manufacturing, services, agriculture, mining, etc.

**HARDEST** hit are airlines and tourism sectors: completely blocked during the pandemic but the block will continue up to 2021:

Most people will not go on holiday in 2020

Those going on holidays will stay in their home country

# AIRLINES:

Drop in activity by more than 50%

IATA (International Air Transport Association) estimates that about 25 million jobs are at risk in that industry worldwide

Airline companies have received state aids to survive: Lufthansa (aid could reach 10 bn €), Air France (7 bn €)

British Airways less helped: will cut 12,000 jobs

**→ Expectation that it will take 3 years to recover**

# ITALY:

**Alitalia:** already in bad shape before the virus

The Italian government provided € 400 million loan in December 2019

Early March 2020: Alitalia was on sale

End March 2020: the Italian government seems to prefer nationalisation, i.e. Alitalia will become a state-owned company

It seems the number of employees will drastically reduce (8,000 jobs cut, i.e. about 73% of the workforce)

## **Telecommunications sector:**

Fall in revenue from international roaming

But compensated by boom in data traffic: e.g. increase by 30% in one month (March) in Italy (up more than 50% relative to March 2019)

Need to develop networks (4G and 5G)

5G will probably experience a push with smart working continuing in the future

# **Engineering and construction sector**

Many activities have been stopped, except public works, which have generally continued

Residential and non-residential subsectors: individuals, retail companies, and small businesses are facing significant short-term stress and, with little choice but to conserve cash, many of these have already stopped projects.

## Longer term:

- Construction companies with high levels of debt and low cash reserves may face a liquidity crisis
- As smaller businesses, sub-contractors may fail rapidly
- Contract management will come into sharp focus, as customers seek to terminate or renegotiate contracts
- Internationalisation will become less viable as companies reconsider the regions in which they want to operate, and countries put more restrictions on foreign companies

# Technology sector

Big impact through difficulties in raw materials supply, disruption to the electronics value chain, and inflationary risk on products

Positive impact through acceleration of remote working caused by the crisis + push to reduce vulnerability of global value chains (reshoring)  
+ Potential carbon emission reductions, if focus on sustainability practices is emphasised in the recovery

## **Hardware/software**

- The launch of new smartphones may be deferred due to supply chain constraints (production systems are global so big risk on supply of parts and components)
- Software is a growth catalyst (especially security software, cloud services)
- Companies with remote-working technologies are already seeing increased demand as businesses increase their remote-working capabilities.
- Demand for laptops and mobility devices from business is booming due to smart working



# **AUTOMOTIVE sector**

- Consumer demand has fallen and will continue doing so: after lockdown consumers affected by job losses will not buy cars (problem especially in the lower segments of the market)
- Auto companies will probably concentrate on new segments, such as electric and other less-polluting cars (especially if governments support this)
- This will lead to rationalisation: closing of some factories, M&A

# **AUTOMOTIVE sector**

- This will lead to rationalisation: closing of some factories, M&A

In the car sector many factories will have to close down due to fall in demand.

This could be an opportunity to invest in new technologies and low carbon-emission vehicles as demand recovers in the future

+ opportunity to adopt Industry 4.0

# Retail and e-commerce

While physical shops have been closed, except in food and other essential goods & services retail, E-commerce has boomed

Example Italy

e-commerce rose at beginning of lockdown by 30% relative to just before the lockdown and 80% relative to the previous year

# Professional services

Expected to substantially increase remote delivery as a result of the long-term effects of Covid-19

Professional services have been growing in the last years, especially in North America (about one third of the global market for professional services), Western Europe and Asia.

# Professional services

The professional services market is highly fragmented, with large numbers of small players.

The top ten competitors in the professional services market accounted for about 4% of the total market in 2018: Deloitte Touche Tohmatsu Limited, PricewaterhouseCoopers (PwC), Ernst & Young, KPMG, WPP plc, Omnicom Group, McKinsey & Company, AECOM and IBM.

# Professional services

Future trends: the design, research, promotional and consulting services segment will grow at high rates in the future.

e.g. developing specializations to cater to demand from niche markets; using 3D printing technology in the design services; opting for virtual firms to reduce operational costs; collaborating with micro influencers for marketing campaigns.

Major professional services firms will invest in data and analytics technologies to offer services related to these technologies (big data analytics for product development, manufacturing and interactions with customers)

# OVERALL IMPACT

Businesses that had competitive disadvantage before the crisis will be worse-off

Export-led sectors generally recover more quickly from crises: same with Covid if international transport resumes

Trends of digitalisation and reshoring are intensifying and will continue doing so

# FOCUS ON SMEs

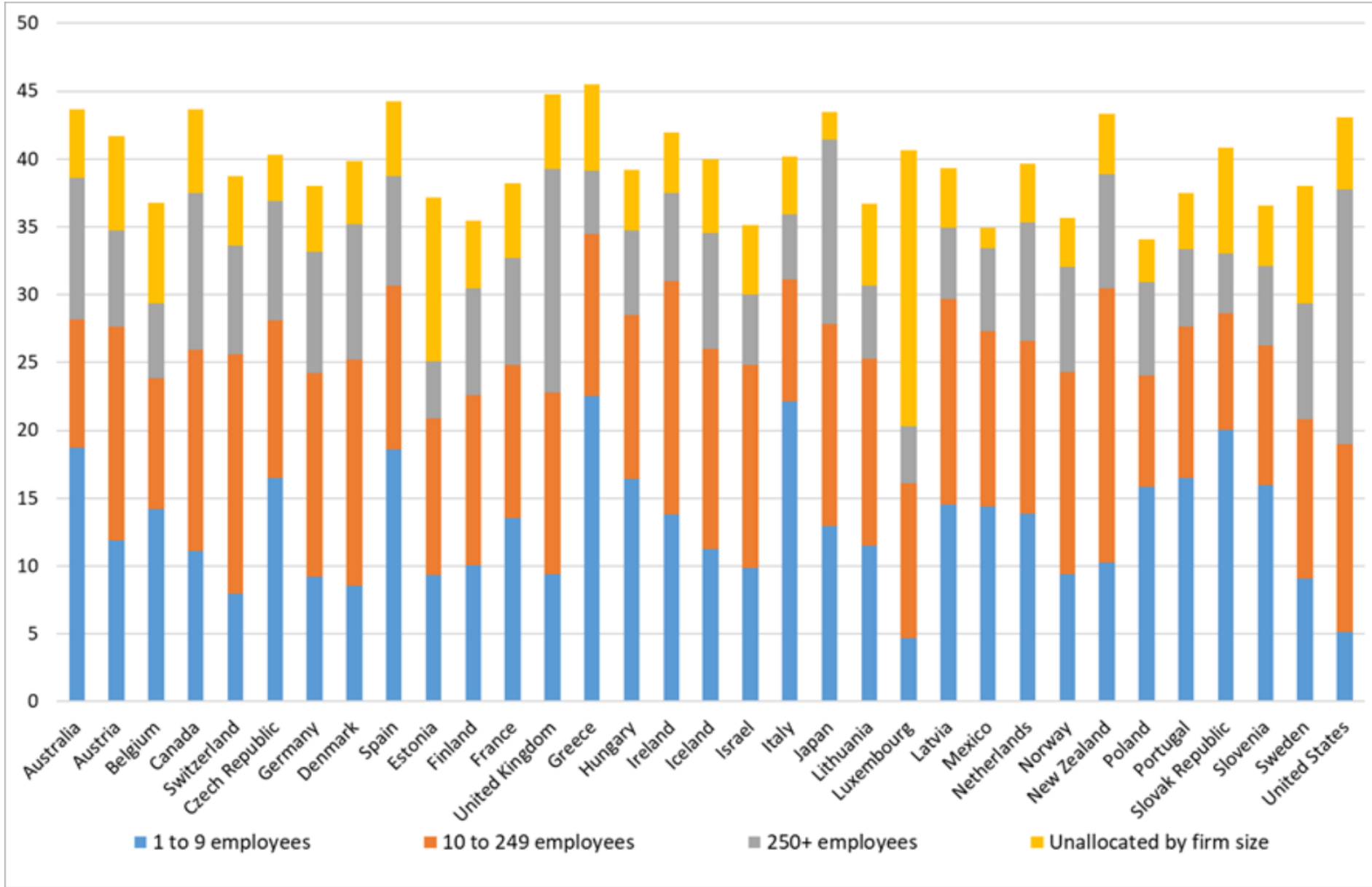
- SMEs are generally more vulnerable to crises
- Systematic data is not available yet but many surveys have been carried out world-wide
- OECD (end April 2020): outcome of 31 SME surveys identified worldwide

More than half of SMEs now already face severe losses in revenues

One third of SMEs fear to be out of business without further support within 1 month, and up to 50% within three months



# Share of total employment in the most adversely affected sectors by firm size (%)



Source: OECD (2020) Strong, medium, vulnerable

## **Around the world:**

### **USA: NBER survey of over 5 800 SMEs**

43% of responding businesses are already temporarily closed

On average, businesses reduced their employees by 40%

Three-quarters of respondents indicate they have two months or less in cash in reserve

**UK:** survey of 941 freelancers showed that 91% of respondents are concerned about the financial impact on their self-employed business, 69% indicate that demand has decreased and 45% fear to be out of business without further support.

**Asia:** 50% of SMEs have less than a month or a month of cash reserves

Nearly 30% of SMEs expect they have to lay-off 50% or more of their workers

## **France:**

72% of companies with fewer than five workers and 51% of companies with a turnover of under EUR 500 000 are now at grave risk of financial collapse

**Italy:** given prevalence of SMEs in the industrial system, the Italian productive sector is particularly hit

In the next months SMEs will need liquidity, especially in Lombardy, Veneto and ER

# Fatturato delle imprese italiane

Dati in miliardi di euro, stime 2019 e previsioni 2020-2021; tassi di variazione su anno precedente

## Revenue of Italian firms

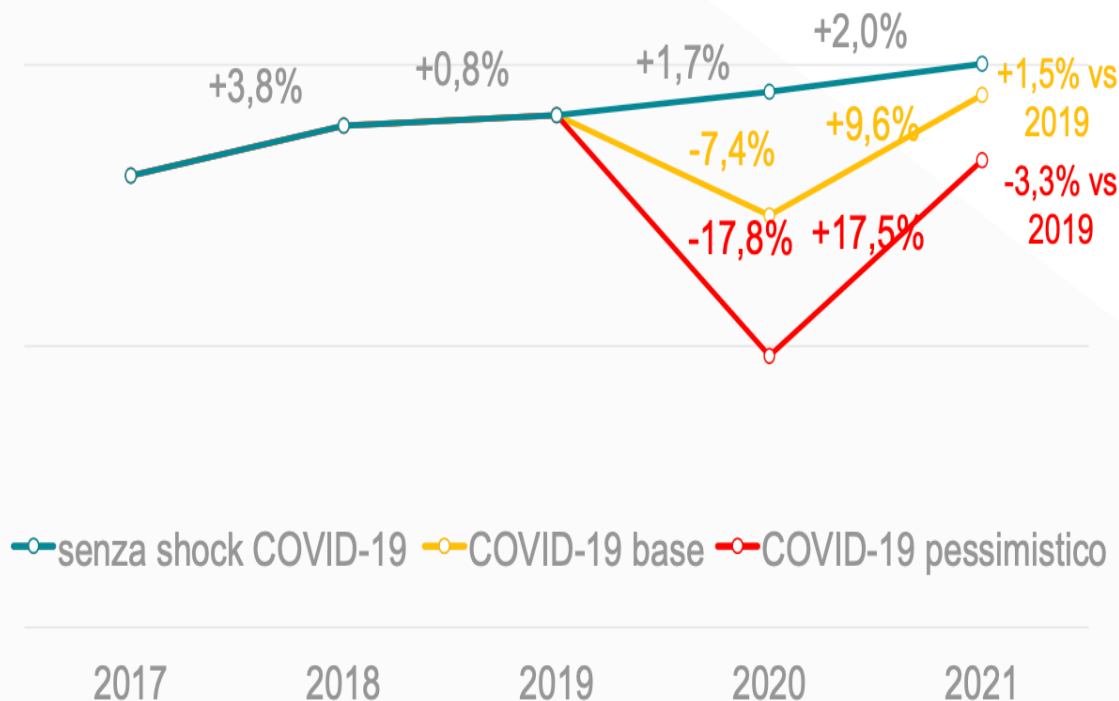
Basic scenario:  
emergency lasts until May 2020

Scenario base:

- persi 220 miliardi nel 2020 e 55 miliardi nel 2021 vs situazione ante COVID-19

Scenario pessimistico

- persi 470 miliardi nel 2020 e 172 nel 2021 vs situazione ante COVID-19



Italy:

44% of retail shops may never re-open (according to President of Confindustria, the Italian Confederation of industry)

According to some sources Italian SMEs require € 45 billion to avoid failure

# L'impatto sui settori secondo lo scenario COVID-19 base

## Fatturato delle imprese italiane per macrosettore

fatturato € mld

tassi variazione %

	2019	2020	2021	2020/19	2021/2020	2021/2019
aziende agricole	35,4	35,8	36,1	1,2%	0,8%	2,0%
largo consumo	127,3	124,6	127,5	-2,1%	2,3%	0,1%
sistema moda	91,7	85,5	91,0	-6,8%	6,4%	-0,7% <span style="color: red;">■</span>
sistema casa	42,3	39,8	41,6	-5,9%	4,5%	-1,7% <span style="color: red;">■</span>
mezzi di trasporto	82,2	72,6	83,8	-11,7%	15,5%	2,0%
chimica e farmaceutica	73,3	74,1	77,6	1,1%	4,8%	5,9%
metalli e lavorazione metalli	104,3	96,4	104,3	-7,6%	8,2%	0,0%
elettromeccanica	161,9	147,4	161,0	-8,9%	9,2%	-0,5% <span style="color: red;">■</span>
elettrotecnica e informatica	35,4	35,5	37,0	0,2%	4,3%	4,6%
prodotti intermedi	68,3	63,9	68,5	-6,5%	7,2%	0,3%
informazione e comunicazione	86,7	85,6	85,5	-1,3%	-0,1%	-1,3% <span style="color: red;">■</span>
carburanti energia e utility	337,7	307,3	340,8	-9,0%	10,9%	0,9%
costruzioni	159,3	146,1	160,1	-8,3%	9,6%	0,4%
distribuzione	655,6	608,4	682,5	-7,2%	12,2%	4,1%
logistica e trasporti	130,4	112,6	130,7	-13,7%	16,0%	0,2%
servizi non finanziari	214,4	192,7	213,5	-10,1%	10,8%	-0,4% <span style="color: red;">■</span>
servizi immobiliari	4,4	4,2	4,4	-5,2%	6,1%	0,6%
<b>totale</b>	<b>2.410,7</b>	<b>2.232,5</b>	<b>2.446,8</b>	<b>-7,4%</b>	<b>9,6%</b>	<b>1,5%</b>

**Fatturato delle imprese per regione, variazione in %**

	Scenario Cerved base		
	2020/19	2021/20	
Basilicata	-11,1	14,2	
Abruzzo	-9,9	11,9	
Piemonte	-9,8	11,8	
Sardegna	-8,9	12,2	
Valle d'Aosta	-8,7	10,8	
Lazio	-8,5	10,9	
Trentino AA	-8,1	10,5	
Sicilia	-7,8	11,1	
Liguria	-7,7	10,6	
Marche	-7,6	8,7	
Italia	-7,4	9,6	
Molise	-7,3	9,1	
Toscana	-7,2	9,5	
Campania	-7	9,6	
Calabria	-7	10,5	
Puglia	-6,9	9,2	
Emilia Romagna	-6,7	8,4	
Veneto	-6,7	9,2	
Lombardia	-6,6	8,6	
Friuli VG	-6,6	8,8	
Umbria	-5,4	8,8	



## 2. Industrial policy after coronavirus

Industrial policy must address:

- A. Facing the emergency
- B. Preparing for the long-term: building resilience

## **A. Facing the emergency**

Most governments world-wide have adopted emergency packages to financially support productive sectors

EU: measures at all levels of government (supranational, national and regional)

## **European Union:**

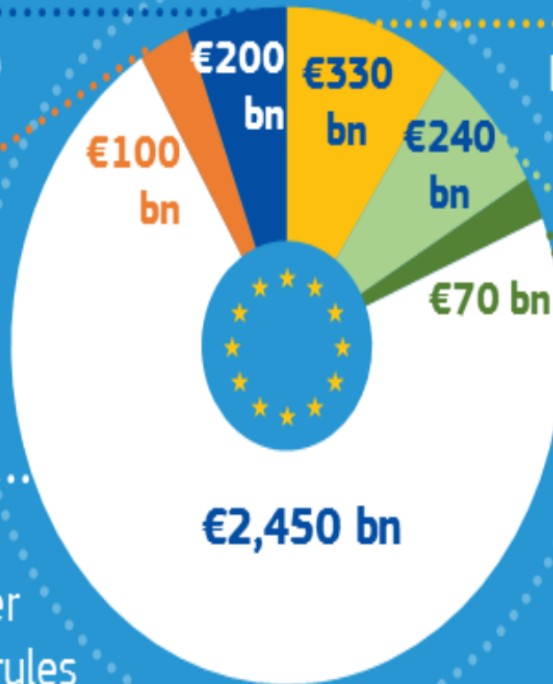
- National governments are providing liquidity support for sectors facing disruptions and companies facing liquidity shortages, consisting of public guarantee schemes and deferred tax payments, which are now estimated at 16% of EU GDP, about € 2.9 trillion (mostly from national governments, EU budget is small)
- EU level: flexibility allowed in EMU rules to finance relaunch after crisis; state aids rules relaxed to some extent, especially when applied to SMEs

## #coronavirus crisis EU economic response

European Investment Bank Group  
financing for businesses

SURE - EU funding for  
short-time work schemes

National liquidity measures,  
including schemes approved under  
temporary, flexible, EU State aid rules



National measures taken under the  
flexibility of EU budgetary rules  
(general escape clause)

European Stability Mechanism  
Pandemic Crisis Support  
for Member States

Direct EU budget support

**€3,390,000,000,000**

# Specific Measures for SMEs

Several countries have introduced measures related to working time shortening, temporary lay-off and sick leave, some targeted directly at SMEs.

Similarly, governments provide wage and income support for employees temporarily laid off, or for companies to safeguard employment.

In many cases, countries have introduced measures specifically focused on the self-employed (entrepreneurs)

# Specific Measures for SMEs

Other measures include the deferral of tax, social security payments, debt payments and rent and utility payments.

Also tax relief or a moratorium on debt repayments have been implemented.

+ measures regarding procedures for public procurement and late payments

# **Specific Measures for SMEs**

Several countries have introduced, extended or simplified the provision of loan guarantees, to enable commercial banks to expand lending to SMEs.

In some cases, countries have stepped up direct lending to SMEs through public institutions.

Several countries are providing grants and subsidies to SMEs and other companies to bridge the drop in revenues.

## **More long-term policies (structural policies)**

Support to adoption of new working methods and (digital) technologies, to find new markets and sales channels

These measures help SMEs face short-term challenges (smart working) but also contribute to strengthening the **resilience** of SMEs in a more structural way and support their further growth.

See OECD: SME Policy Response



## **B. Preparing for the long-term: building resilience**

Industrial policy is a long-term policy, aiming at favouring structural changes so that industries can be competitive

Industrial policy to face the emergency is a short-term support, while the bulk of industrial policy should consist in favouring structural changes to make industries more resilient in the future

Being resilient means being prepared for future shocks and evolution

i.e. in particular responding to megatrends such as climate change (need for environmental sustainability) and Industry 4.0

However, businesses have asked the European Commission for a halt or slowdown in measures and actions aimed at greening the industry, due to high cost of the coronavirus

Businesses officially call for reduction of environmental constraints but long-term investors and consultants suggest otherwise:

Survey by McKinsey (2020):

Recommendations to business managers to face the Covid crisis:

1. Ensure employees' safety because this ensures availability of human capital + raises employees' motivation
2. Invest in sustainability: i.e. greening of the business

Greening the business allows:

- Cost reduction: less waste so less cost on it, reduction in energy costs
- Marketing and consumer satisfaction: more and more consumers are asking for greener products and production processes

Jobs at risk with crisis are also jobs at risks due to automation: the effort of government on education and training should therefore be very high (especially for SMEs)

➔ For example in Italy:

National commission for school has advised investing again in schools, not only this year but also in the next few years

This year: need for € 3 billion to adapt school to security measures and infrastructure for distance learning

Bianchi and Labory (2020)

Proposal for a new industrial strategy for Italy

Industrial policies are highly specific to the context: here I discuss Italian case

## Problems of Italian economy in the last two decades:

- Economic growth is low
- North / South divide has worsened
- Investment in R&D has been low

- Investment in education at all levels has reduced, whereas most countries have increased it
- From 2010, public investment have dropped by 40%, while in Germany they have risen by 20%
- Some regions are highly dynamic and partly compensate for these
- Internal demand has been sluggish, and Italian firms have had to look at foreign markets (exports)



➔ Industrial policy for Italy should act on both the demand and the supply side:

Demand: particularly with public investment in new technologies, in education, but also in infrastructure: roads, public transport and telecommunication networks such as 5G and Big Data

Supply: boost to new technology adoption, services to firms, R&D, reshoring,

Four main points suggested by Bianchi and Labory (2020):

1. Green Deal for green and health technologies;
2. Restructuring of supply chains and investment attraction;
3. Infrastructure of research, big data and artificial intelligence for the new industry
4. Massive investment for the re-skilling of the country