The road to revival

The COVID-19 pandemic has forced restrictions across the globe and the effects it could have on different sectors remain unknown. Alison Coleman looks at the paths out of lockdown being taken by some, while evaluating what the UK can do

As COVID-19 wreaked its path of destruction across the world, most countries decided that lockdown measures would be the best way to slow its spread. Their actions were swift and, in many cases, severe. Now, with outbreaks at different stages around the world, some of those countries are starting to lift lockdown measures, allowing businesses to reopen and people to return to work.

In all nations, the main concern about easing restrictions is the possibility of the virus resurging. But each individual country's lockdown exit strategy – the reopening of economic, educational and cultural activities – is dependent on several factors, including political, economic and governance systems and their cultural and social models, as Edgar Bellow, Professor of International Management at NEOMA Business School in France, explains.

"Each country is trying to balance the restrictions put in place to protect public health with the need to ease shutdowns to revive the economy," he says. "This is creating a cultural clash between the political decision-makers, who are advised by a team of expert scientists, and civil society, business leaders and political opposition. If we lift lockdowns tomorrow, the economy isn't going to rebound. It will continue to struggle because life can't continue as normal when the hospitals are full."

But with signs that the outbreak has peaked in many countries, including the UK, exit strategies are now being cautiously drafted, with one eye on those countries further along the pandemic timeline.

A STRONG RESPONSE

China first locked down Wuhan, the centre of the outbreak, on 23 January. It was one of the strictest lockdowns implemented, and its retail, leisure, entertainment, tourism and automotive sectors were among the hardest hit. Some 76 days after lockdown was introduced, restrictions were significantly relaxed.

Jeremy Shaw, Head of Asia for Intralink, a UK consultancy that helps western firms expand into China, Japan, South Korea and Taiwan, says: "Our team members are now back working in the office, along with most of China's business community, and meetings are happening once again, although people are being careful.

"The Chinese economy has experienced a short-term setback, but it has been less pronounced than many expected. The country's companies are amazingly resilient, and many found ways to continue working despite the restrictions."

In light of a decline in demand for Chinese exports from the west, the government's next challenge is to stimulate domestic consumption. This will create an important market for international firms, especially with China's huge middle class, which was estimated to stand at about 400 million in 2018.

The automotive sector is just one of the areas that faces challenges as a result of the pandemic. According to KPMG, 80% of the world's auto supply chain is connected to China. The country suffered a 92% slump in car sales in the first half of February, according to a report released by the China Passenger Car Association.

But by the beginning of March, the China Association of Automobile Manufacturers said that 90% of over 300 automotive parts suppliers outside of Hubei, the province where Wuhan is located, had restarted production with 80% of workers present. But the production rates were low due to a scarcity in orders.

One thing that could boost car sales during the pandemic is a trade-in programme announced by the Shanghai government in 2019, which encourages owners to upgrade to new vehicles.

"In partnership with SAIC, China's largest car maker, it will provide a subsidy of RMB 10,000 (about £1,100), towards a new petrol vehicle and RMB 15,000 (£1,700) towards an electric model," says Shaw. "And, despite a dip in February sales, Tesla has bounced back quickly, seeing its highest-ever monthly China sales of over 10,000 vehicles in March."

When it comes to easing restrictions, the concern shared by all nations is the risk of a deadly resurgence of the virus. But each individual country's exit strategy [...] is dependent on several factors

Construction workers in Wuhan, China, resume construction on a utility tunnel

10,000

Vehicles sold by Tesla in China in March, their highest ever monthly sales

92%

The amount car sales in China fell by in February 2020

The tourism sector is being reinvigorated, with many attractions offering free admission. In Anhui province alone, the government offered free entry to 29 scenic spots. With the rigorous testing, contact tracing and early border closures deployed by South Korea, Singapore, Japan and Taiwan, the economically crippling lockdown measures employed by China were largely avoided. But, like China, South Korea is also heavily reliant on global exports and its government is working hard to boost domestic consumption as western demand drops away.

One of the hardest-hit sectors in South Korea has been the meetings, incentives, conferences and exhibitions (MICE) industry. However, the country demonstrated adaptability, for example, moving its BioKorea exhibition online. "The event will be held in a virtual mock-up of Korea's National Palace and will charge 'real' fees, around £700 for participants and £2,700 for exhibitors with a basic stand," says Shaw.

An early response to COVID-19 by the Japanese government, coupled with the introduction of various measures that relied on voluntary compliance, effectively slowed the early spread and, as a result, the death rate has remained comparatively low.

"The Japanese government doesn't have the power to force businesses to close, or to compel people to stay in their homes, so instead it appealed to the population's sense of citizenry, which appears to be working well," explains Shaw.

Taking into account factors such as financial resilience, government and institutional capacity, sensitivity to low oil prices, and evidence of healthcare security, the likes of China, South Korea and Japan appear to be the best placed to emerge from the crisis at a reasonable pace.

"These countries are more advanced in the process of dealing with COVID-19 and we can judge their efforts successful: their economies will be on a path to recovery soon," says Kim Catechis, head of investment strategy at Legg Mason affiliate Martin Currie. "The proviso of course is that these countries are highly integrated into global supply chains and will need their clients in other parts of the world to successfully navigate COVID-19 and be back at work in order to be able to get back to normal."

A WESTERN OUTLOOK

Europe is reopening with great caution, and with governmental responsibility trapped between the principle of need and the principle of solidarity in developed countries and regions. Germany loosened its lockdown measures at the end of April and allowed many non-essential businesses to reopen.

Following this, however, the infection rate began to rise again. Italy and Spain, countries that had among the highest number of deaths in Europe and the longest and most rigorous lockdowns, are also taking tentative steps towards easing restrictions.

By contrast, in the US - the country with the highest number of deaths and no national-level lockdown order - the verbal sparring between President Donald Trump and state leaders has been fuelled by Trump increasing the pressure to lift confinement measures

COUNTRIES THAT TOOK A DIFFERENT APPROACH TO LOCKDOWN

Not all countries imposed lockdown measures to deal with the COVID-19 pandemic. Unlike almost every other EU nation, Sweden kept its schools and businesses open, while its public spaces remained as crowded as ever. People were expected to keep a safe distance but weren't ordered to stay home. The goal was to emerge from the pandemic with an economy that still functions.

However, the death rate in Sweden has risen higher than neighbouring countries in Europe, reaching more than 40 deaths per 100,000 people by the end of May, according to figures from Johns Hopkins University. By contrast, Denmark has recorded just under 10 deaths per 100,000 people, Finland fewer than six and Norway fewer than five.

Denmark and Norway are now beginning to ease their lockdowns, with children returning to school, but with social distancing measures in place, and salons and other businesses with one-to-one contact allowed to reopen in Norway.

Belarus, another European outrider, kept its borders open, with factories, shops and restaurants conducting business as usual. President Alyaksandr Lukashenka described global concerns over COVID-19, as "mass psychosis", insisting that vodka and saunas would cure the coronavirus. According to WHO the number of reported coronavirus cases in Belarus has been growing rapidly, with 38,059 cases and 208 deaths reported by the authorities on 28 May.

Above: A waitress takes orders in Franklin, Tennessee, United States. The state of Tennessee recently allowed some businesses to reopen

Below: A man waits in an empty subway station in Tokyo, Japan

"While bars and restaurants are a problem, the government should say that any business that can implement social distancing effectively should start to return to work"

and restart the US economy. But he had to concede defeat on his initial goal of opening up the US by Easter.

"Public opinion may see Donald Trump's political strategy for his re-election campaign," says Edgar Bellow. "As for reopening the country in the name of the economy, the virus sets the timetable, not us. Without national solidarity within the US government, the anxiety of losing everything will be stronger than the fear of the virus." He fears that anxiety "will push for a brutal reopening of US economy".

Lockdown exit strategies also vary by industry sector. Italy recently allowed some shops to reopen in some areas; Spain resumed manufacturing and construction activity. For the travel, leisure and hospitality sectors everywhere, post-lockdown social distancing will mean they are likely to suffer the longest restrictions.

Profitability in the airline sector, for example, would be significantly affected by the imposition of a 14-day quarantine for passengers, while lost revenues from ticket sales at sporting events may prejudice the sporting calendar even after fixtures are allowed.

Alastair George, chief investment strategist at the Edison Group, says: "Large gatherings of people are unlikely to be permitted until there is confidence that sufficiently effective tracking technology is available that can mitigate a potentially major super-spreader event, without shuttering the economy. There are likely to be serious profitability issues in the service sector, most notably, bars, restaurants and other entertainment venues, for as long as social distancing remains in place. In the circumstances, many hospitality venues may choose to remain closed."

LESSONS TO LEARN

In May the UK government released its exit strategy, a three-stage plan setting out how it will ease lockdown measures in phases over the following three months.

Stage one began with some businesses reopening in early to mid-May, including food production, logistics, construction, manufacturing, distribution and scientific research. Employees in these industries were asked to observe social distancing measures in the workplace and, where possible, avoid public transport.

Stage two was scheduled for early June and included a phased re-opening of all non-essential retail businesses, provided that new COVID safety measures could be implemented.

In the third and final stage, although not expected to come in to force before 4 July, the government would hope to reopen at least some remaining businesses.

Progression across all three stages was conditional on scientific and medical advisers being satisfied the previous measures had not caused a spike in infections.

Mike Hampson, CEO of Bishopsgate Financial, says: "As long as social distancing is implemented effectively, this will be good for the economy and, more importantly, mental health and wellbeing for many people. Everyone needs the end to lockdown; this is not a party lines issue, whoever may like to portray it as such. What is needed is a sensible and strategic way ahead."

For many countries the acute phase of the pandemic may be almost over and almost all of the statutory lockdowns currently in place globally are expected to be relaxed over the coming months. However, for the foreseeable future, national economies will have to contend with the prospect of social distancing measures to avoid a second wave of infections, curtailing both spending and investment.

In the longer term, the expectation is for an acceleration of the trend to conduct business digitally, which has now proven to be effective, both from a cost perspective and for its enabling of social distancing and a reduced environmental impact.

While lockdown interventions have been effective in reducing infection rates, the economic cost has been enormous. More than 25 million jobs have been lost in

EASING THE PAIN

The government has made a number of schemes and grants available to support businesses negatively affected by COVID-19. These include the coronavirus job retention scheme (CJRS), the coronavirus business interruption loan scheme, business grant funding and bounce-back loans, and options to defer VAT and tax payments. So far they seem to delivering.

"Furloughing staff keeps business costs down and allows work to potentially build up for when staff can return, while the business rates grants are putting cash back in to small businesses with premises," says Gary Green, principal at chartered accountancy firm Key Business Consultants. "The bounce-back loans offering zero interest and no repayments for 12 months seem so attractive that it's almost impossible not to consider getting one as long as you have the need and expect to be able to pay it back."

Philip Dawson, managing director at jewellery business Lily Arkwright, furloughed four of his seven full-time staff through the CJRS and also received a government business grant for a fixed amount of £10,000, in line with the rateable value of his business premises. He says: "The furlough payments took less than five business days to land; however, the business rates grant took over three weeks and wasn't particularly well planned out."

Roger Kimber, managing director of engineering company Strata Technology, also claimed CJRS funding for April and deferred his VAT payment. "The cash allocated to that debt went into a separate account and was excluded from our cash-flow plan," he says. "But if we need to dip into that reserve, as many companies will have to do, we will face a difficult time come the end of the financial year, as we would not be able to meet that obligation."

In next month's *Business & Management*: The UK's business coronavirus response – furlough and beyond.

the US alone and unemployment is forecast to double in the UK to 10% by the end of the year.

"The recent PMI data for Europe and the US highlights the damage being done to the global economy during April, while projections from the UK's Office of Budget Responsibility indicate that UK GDP may decline by 35% during Q220," says Alastair George. "Nevertheless, in coming weeks investors are likely to welcome the flow of company news releases announcing the restart of operations as supply chains come back to life."

How and when national economies and industry sectors can be effectively restarted is a complex decision driven by economic, political and social factors. A successful outcome will also depend on business and party-political forces putting their different priorities aside and engaging in greater cross-border collaboration.

Agnes Cserhati, a leadership coach for public and private sector leaders across Asia, Middle East and Europe, says: "We are entering a new, unknown recovery period that could best be described as a 'low-touch economy'. This will be a complex collaborative process of defining what 'new' will look like. Leaders will need to recognise that going solo will simply not be enough to succeed in the face of an enormous global challenge."

It may be too early to anticipate the full economic impact of lockdown, but a global recession is almost a given, along with high unemployment and many organisations struggling to survive. Yet, the business world is also potentially looking at fast-forwarding digitalisation, with innovation at the forefront of strategy and new ways of business engagement.

There is no easy solution. Until an effective treatment can be developed the road ahead will involve a fragile balancing act between the interests of public health, society and the economy, with governments more reliant on each other than ever before. ●

Workers at a grocery store in Italy, which, at the time of writing, has begun a staged end to the longest lockdown in Europe

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