Crisis *and* Recovery

Learning from COVID-19's Economic Impacts and Policy Responses in East Asia

EXECUTIVE SUMMARY

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Executive Summary

This edited volume examines the economic consequences and government responses to the COVID-19 pandemic in six East Asian economies: Cambodia, Indonesia, Malaysia, Mongolia, the Philippines, and Vietnam. These countries, while geographically close to each other, experienced the crisis differently and implemented varying measures to contain the spread of the virus and mitigate economic impacts with varying success.

The human and economic toll of COVID-19 is challenging to quantify. The World Health Organization announced the worldwide outbreak in March 2020. Since then and up to February 2023, it is estimated that more than 6.85 million people have died from the virus infection (WHO, 2023). This number includes those who died from complications related to the virus, such as dehydration and organ failure, and those who died directly from infection by the virus itself. Early on in the pandemic governments shut down economies: most severely restricted mobility, closed schools and businesses, and even forced households to remain in place. The shutdowns were costly, as they induced economic recessions. These pandemic-induced recessions subsequently cost billions of dollars in lost revenue and productivity during the first few years, but more recent estimates suggest that the pandemic could ultimately cost trillions when all costs are realized worldwide.[1]

Given the size and breadth of this health and economic crisis, governments were tested like never before. Governments needed to act quickly and comprehensively with tools and policies that were untried under these conditions. They responded under great uncertainty, not knowing precisely the scale and depth of the pandemic's impact on health and the economy. Many lessons are still to be understood regarding how well governments responded, but some initial learnings are clear.

While a quick and comprehensive policy response was critical, institutions may have mattered more in mitigating the adverse economic effects of COVID-19 on the most vulnerable households and businesses. Among the six countries studied, those with pre-pandemic broader social safety nets, lower levels of informality, more openness to trade and greater export diversification, a less burdensome business environments, deeper and broader financial markets, and better digital infrastructure responded more effectively to protect vulnerable households and businesses. The efficacy of policy measures to address the economic damage of COVID-19 was only as good as the institutions that supported them. For example, social assistance was quickly implemented, easing the pain of the poorest in countries where safety net systems had already good coverage that was well-designed and backed up by solid delivery systems. Relatively open markets, business environments that facilitated the ability of firms to react to changing circumstances, and more ample access to finance likely improved the chances that firms weathered the storm. In contrast, the failure to adequately protect the informal sector suggests that the best way to respond to a pandemic-induced recession is to build systems and institutions ready to help the most vulnerable when needed.

This report focuses on the economic impact of the COVID-19 pandemic and the policy response among six individual nations. Still, the success or failure of each economic policy was closely tied to health policies

[1] IMF 2020.

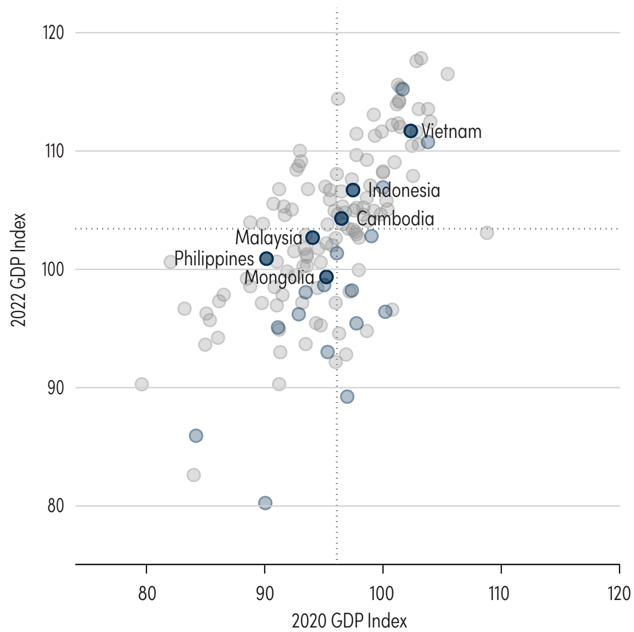
and control of the virus. Concerning sound health policy responses, the six East Asian economies could learn much from the experiences of Japan, the Republic of Korea, Singapore, and Taiwan (China). In the first stages of the crisis, these neighbors—all of whom had stockpiled medical resources prior to the pandemic—acted without delay to quarantine visitors, used technologies to track infection, and enlisted the private sector to provide health solutions, such as test kits.

Differences in the Impact of the Pandemic in the Six Countries Studied

Like other regions, East Asia and the Pacific (EAP)[2] experienced a large contraction in 2020 and began to recover in 2021 (World Bank 2022a). For the first time in 20 years, poverty in the EAP region, excluding China, increased in 2020 and 2021 (World Bank 2022a). The region is projected to grow 5.2 percent in 2022–23, the second-highest regional growth rate after South Asia (World Bank 2022b). Generally speaking, the six countries experienced lower work stoppages and income losses than observed in other regions. However, there are significant differences in performance within the region and among the six countries examined in this report, from the steep contraction in the Philippines to the uninterrupted, positive growth rates in Vietnam.

The **Philippines** experienced the steepest economic contraction in 2020, with output losses significantly larger than the global median (Figure ES.1). The 9.5 percent contraction in 2020 represented the nation's worst

FIGURE ES.1 2020 GDP index and projected 2022 GDP index (2019 GDP = 100)



Source: World Bank 2022a.
Note: Dotted lines indicate global medians. Countries in EAP are marked in red, others in grey.

[2] Developing East Asia and Pacific comprises Cambodia, China, Indonesia, Lao People's Democratic Republic (PDR), Malaysia, Mongolia, Myanmar, Papua New Guinea, The Philippines, Thailand, Timor-Leste, Vietnam, and the Pacific Island Countries.

single-year decline since the 1940s. Prolonged and severe mobility restrictions without much containment took a toll on the domestic economy. In addition, the country's firm reliance on tourism and other service exports greatly affected the economy early on. Private sector performance was severely affected: 6 out of 10 firms reported sales declines of over 90 percent, and, at times, approximately 40 percent of businesses were permanently or temporarily closed. Of the six countries analyzed, the Philippines experienced the largest drop in employment in 2020, with unemployment peaking at 17.6 percent in April of that year. Per capita household income declined 14 percent, with urban households and women suffering the most.

As restrictions eased in 2021, the Philippine economy improved, and businesses started to hire workers. The recovery was limited, however, because global demand for tourism remained subdued. There is evidence of scarring in the labor market, with the reallocation of workers toward more informal, lower-paying positions, predominantly agricultural or wholesale and retail activities. The Philippines already had one of the highest inequality levels in the region; the reallocation towards low productivity sectors, and the disproportionate effect on women, point to critical challenges for inclusive recovery.

Malaysia experienced severe contractions in 2020, driven by high levels of stringency and declines in exports, despite their relative success in containing the virus. Infection rates increased dramatically in late 2020 and early 2021. In response, Malaysia imposed strict lockdown measures. As a result, sales losses were widespread (especially for small firms). However, declines in employment were relatively muted in 2020, but most formal firms lowered wages or workers' hours to cope with the shock.

Mongolia also experienced severe contractions in 2020, driven by high levels of stringency and declining exports, despite their relative success in containing the virus. Like Malaysia, infection rates rose dramatically in late 2020 and early 2021. Mongolia imposed strict lockdown measures that precipitated a slowdown in economic activity. However, declines in employment were also relatively low in 2020, though most formal firms lowered wages or workers' hours to cope with the shock. In addition to a domestic slowdown, the nation's dependence on China for export of mineral and agricultural goods tied Mongolia's economy to the severe slowdown suffered in Chinese demand for these goods.

In the second half of 2021, **Malaysia's** economy recovered, as external demand for manufactured goods and domestic demand picked up, following a strong vaccine roll-out and looser mobility restrictions. In contrast, **Mongolia's** high dependence on demand from China continued to cripple its economy, given its neighbor's economic slowdown. In addition, a second trading partner, Russia, entered into conflict with Ukraine, which further impacted Mongolia's economy. As a result, Mongolia is the only country among the six studied that has not rebounded to pre-pandemic levels in 2022. The threat of firm insolvency was particularly acute in Mongolia; unlike in other countries, foreign-owned and exporting firms—which accounted for a quarter of employment and had higher sales per worker than other firms before the pandemic—were more likely to experience changes and close permanently, potentially affecting the country's long-term prospects for the non-extractive, nonagricultural sectors of the economy.

The relatively effective containment of the outbreak early on in **Cambodia and Vietnam**—achieved through short-lived stringent measures, comprehensive testing, and contact tracing—disrupted domestic economic activity less so than elsewhere. Nevertheless, **Cambodia's** main engines of growth, manufacturing—garments and footwear for export—and tourism, contracted severely in 2020 as global demand collapsed. Cambodia's informal sector, which includes 90 percent of establishments and employment, was hardest hit and slower to recover, particularly in wholesale and retail trade. As restrictions were eased, economic activity recovered, firm closures declined, and work stoppages related to COVID restrictions fell significantly. For the period as a whole, May 2020–May 2021, approximately two-thirds of households experienced labor income losses relative to before the pandemic, some of the largest in the world.

In contrast, **Vietnam's** highly diversified export strategy of products in high demand by advanced economies, including electronics, helped the country to grow in 2020, as well as to rebound quickly in 2021. Strict mobility restrictions imposed from March–April 2020 affected firms early on, particularly those serving the domestic sector, but sales recovered quickly, as restrictions were lifted until the Delta variant outbreak in mid-2021. However, the relatively contained impact on the Vietnamese economy hides important shocks to households. Persistent employment adjustments led to substantial increases in unemployment and informality. While household income losses were less widespread than those of the other five countries in 2020, the December 2021 high-frequency phone survey conducted by the World Bank suggests that 40 percent of households lost at least 25 percent of their income compared to the previous year.

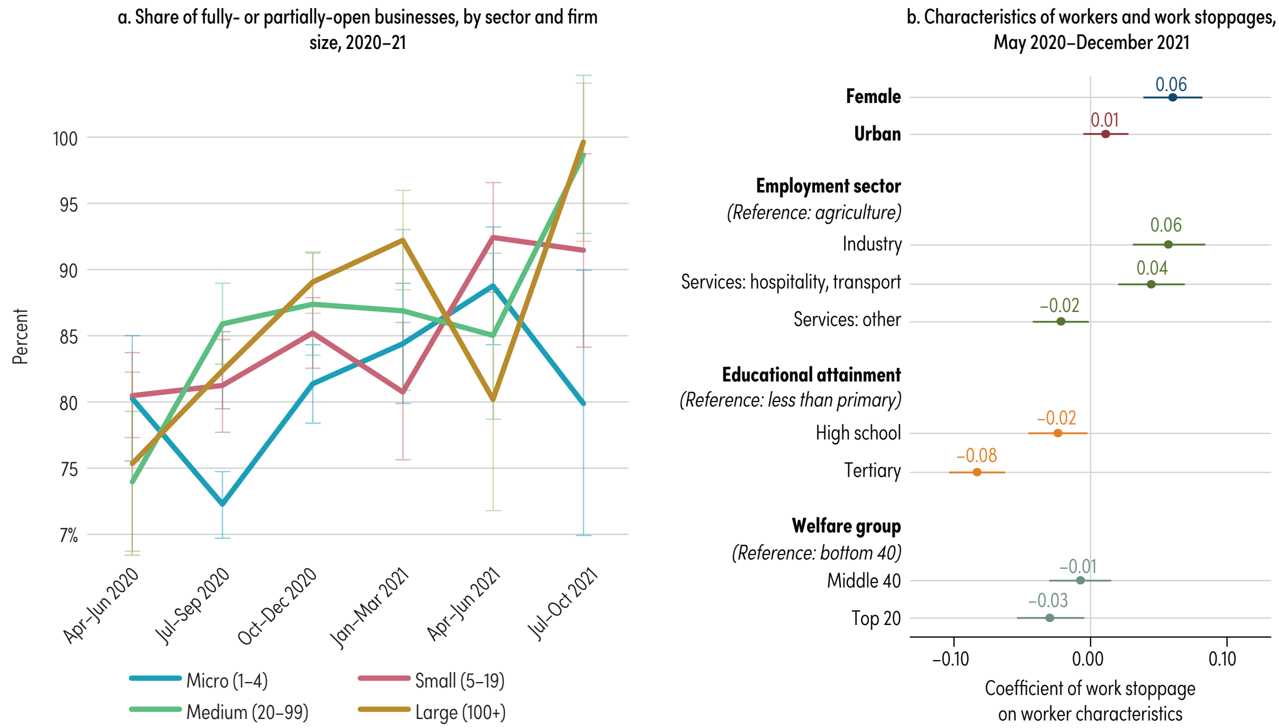
Indonesia suffered a prolonged health crisis and limited containment, but its relatively low dependence on trade isolated its economy somewhat from a severe shock in 2020. Nevertheless, in June 2020, a quarter of all firms were closed, and almost two-thirds of those that were open reported lower sales. Employment declined, with more than half of breadwinners working reduced hours and nearly 90 percent of people involved in non-farm businesses reporting decreasing incomes. Repeat outbreaks and lockdowns hampered the domestic economy in the first year of the pandemic and stymied recovery in 2021. As the economy recovered, sales losses declined, and labor income losses were less prevalent. Still, employment and income in 2021 had yet to return to pre-pandemic levels. The most severe losses were observed among microenterprises and non-farm household businesses, though the government's relatively strong response to provide relief—and later stimulate growth while containing spending and public debt—helped the economy recover.

Common Patterns across the Six Countries

These differences notwithstanding, the six countries **experienced several similar patterns**:

- **The pandemic affected all firms—but some more than others**. Sectors sensitive to mobility restrictions, such as accommodations and food preparation services, experienced the largest contractions in output, business sales, and employment. Smaller firms had more considerable sales losses than large ones. Firms investing in technology and exports were likelier to be among the best performers.
- In Cambodia, Malaysia, and Vietnam, **firms that had higher labor productivity before the pandemic were less likely to shed workers**, suggesting that the pandemic disruption may improve aggregate productivity by weeding out weaker firms and allowing room for more productive firms to grow, in a "creative destruction" manner. This correlation of labor productivity and the change in employment was weaker in Mongolia, possibly due to (a) exporter focus on commodities and agricultural products that were sold to a limited number of markets, and foreign-owned firms (which are typically more productive than other firms) were more likely to experience sale losses and closures; and (b) government support, which included employment retention measures, benefited firms across the board, irrespective of their baseline labor productivity or size.
- **Labor reallocation occurred may exacerbate long-term inequality**. Low-productivity firms, which saw more significant employment declines, are more likely to employ low-earners. Across the six countries, less educated workers, young workers, women, and people who were poor before the

FIGURE ES.2 Unequal impact of the pandemic across firms and households



Source: Data from business pulse surveys and Enterprise Surveys.
Note: Error bars around markers in panel a indicate estimates at a 95 percent confidence interval.

Source: Data from 33 rounds of high-frequency phone surveys across 11 countries in East Asia and the Pacific.
Note: Figures show coefficients of pooled regressions of work stoppages on worker characteristics (one regression per characteristic, not controlling for other factors). These represent the workers' likelihood of stopping work, as determined by the characteristics relative to the other categories. All regressions include country-fixed effects.

pandemic were more likely than other workers to experience work stoppages and less likely to return to work when conditions improved. As a result, households at the bottom of the distribution were more likely to encounter labor income losses. Recovery has also been uneven across households, and worrisome signs are emerging that income or consumption inequality increased. In Malaysia, the Philippines, and Vietnam, the share of workers who work in the informal sector appears to have risen during the recovery. Labor reallocation of workers into lower-paid, lower-productivity sectors may have a long-term impact on the ability of economies to recover inclusively.

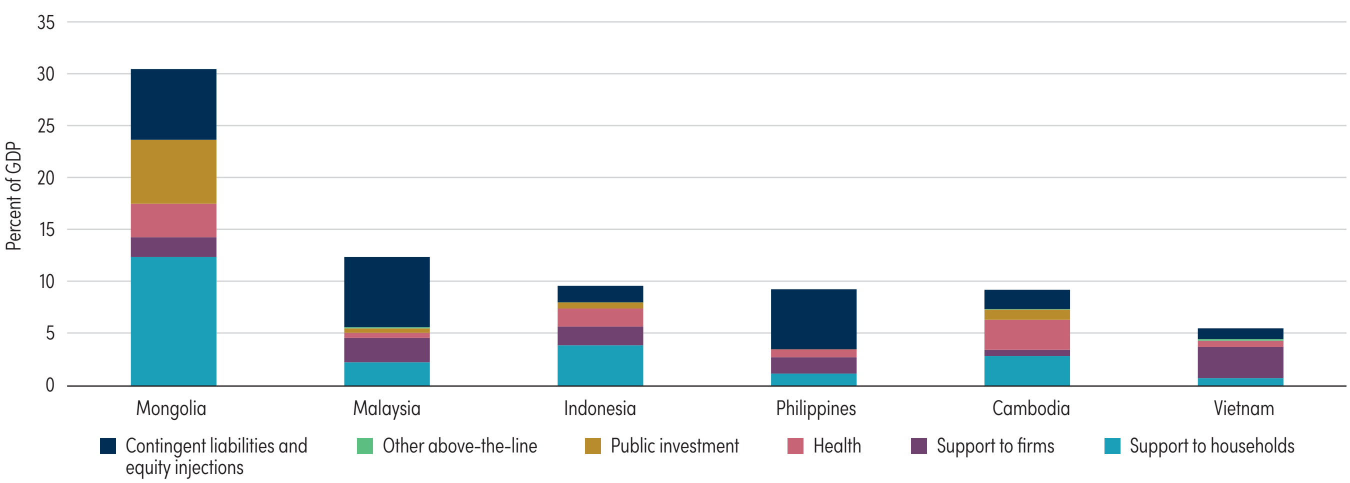
How Did Governments Respond to the COVID-19 Recession?

The COVID-19 policy response in EAP was greater than in any other developing region (World Bank 2022c, based on International Monetary Fund—IMF—Fiscal Monitor Database). All six countries analyzed, except Vietnam, spent slightly larger shares of their gross domestic product (GDP) than similar countries worldwide. The region also recorded the world's highest coverage rates of cash transfers; on average, about half of the people in each country were covered by cash transfer programs during the pandemic (Gentilini 2022). Unlike in most developing countries in the world, more households in EAP—including all of the countries examined within this report, with the exception of Cambodia—received public support than experienced work stoppages or loss of income (World Bank 2022c). Yet, the duration of programs was comparatively short, and the benefit amounts were the second lowest across regions (Gentilini 2022). Nonetheless, the generous governments emergency support cushioned the increase in poverty, as reported in Cambodia, Mongolia, and the Philippines. There are, however, essential differences in the size and composition of government support in the six countries that are worth highlighting (Figure ES.3).

Mongolia's stimulus spending represents an outlier at 30 percent of GDP, similar to allocations in the wealthiest countries. Despite having limited fiscal space, the magnitude of the response was consistent with the size of the government prior to the pandemic and the fact that Mongolia experienced one of the most significant economic disruptions of the countries studied. Support to households formed the largest share at 12.5 percent of GDP, although liquidity support and public investment were also sizable. The quasi-universal Child Money Program and well-established delivery systems meant that the government could quickly disburse relief assistance to households by topping off monthly transfers. Support to firms, including "below-the-line" measures, comprised of loans to firms, umbrella guarantees, and equity injections, was sizable. Because the majority of Mongolia's firms, specifically, 77 percent of all registered firms, are small or microenterprises (ADB 2020), below-the-line measures did not cover their needs. As a result, 4 percent of the GDP of the total package went to contingent liabilities, often to state-owned enterprises and subnational governments, rather than smaller firms.

Cambodia, Indonesia, Malaysia, and the Philippines all allocated between 4 to 9 percent of GDP,[3] despite differences in their development levels and the impact of the pandemic. Nevertheless, the composition of their spending varied significantly.

FIGURE ES.3 Composition of COVID-19 support packages in six countries in East Asia



Source: World Bank estimates by the Office of the Chief Economist for East Asia and Pacific.
Note: Estimates are based on the latest data from national governments as of February 2022. Where disbursement data was unavailable, data on the planned budget was used. "Support to households" includes income support and revenue measures to households, such as direct transfers, employment programs, utility subsidies, and tax exemptions. "Support to firms" includes income support and revenue measures to firms, such as direct transfers; wage subsidies; and tax and contribution deferrals, reductions, and exemptions. "Other above-the-line" items include uncategorized support in which a disaggregation could not be made.

[3] Malaysia: 8.7 percent of GDP; Indonesia: 5.4 percent of GDP; and the Philippines: 3.6 percent of GDP, according to the IMF Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic.

Malaysia and the Philippines dedicated the largest share of support to below-the-line measures, such as contingent liabilities and equity injections, with striking differences. The relatively large liquidity support, compared with "above-the-line" measures, provided by Malaysia—the wealthiest of the six countries studied—is consistent with global experience. Of these measures, 4.9 percent out of 6.7 percent of GDP was in the form of contingent liabilities, which did not necessarily go to the private sector.

In contrast, the Philippines' sizable spending on below-the-line measures and other measures to relax liquidity constraints, at 5.8 percent of GDP, may have had limited reach, given its large informal sector and the predominance of small and micro firms. Only one in five formal firms in the Philippines received any form of assistance. In contrast, 9 in 10 formal firms in Malaysia received government support. Both countries allocated relatively small shares of support to households. However, they still reached a high level of coverage of social programs, with over two-thirds of the bottom 40 percent receiving some type of assistance. Even so, the severity of the economic and social impact of the pandemic in the Philippines meant that short-lived, modest benefits may not have been sufficient to compensate for widespread income losses.

Unlike Malaysia and the Philippines, **Cambodia and Indonesia** primarily supported households and the health sector. As in other lower-middle-income countries, over 60 percent of households in the two countries experienced income losses, and there was a need to strengthen their weaker health infrastructure, given the nature of the disruption. Both countries used existing social programs to swiftly deliver assistance to the poor. Indonesia also launched new programs, including electricity subsidies, which reached 60 percent of the population, far beyond the structural poor. The two countries also used self-targeted cash-for-work programs to reach informal workers. Despite these efforts, Cambodia's assistance coverage was narrow, at less than a third among the bottom 40 percent, and benefits were small.

Both countries also provided limited support to firms, which may have been related to the high level of informality in these countries. As firms were less likely to pay taxes or have access to credit, they could not benefit from revenue and below-the-line measures used in other countries. Liquidity support was the instrument of choice; direct support to address working capital constraints was limited in Indonesia and was not used in Cambodia. Government support benefited a few formal firms, primarily those of medium and large size, although smaller firms were more likely to be affected.

Vietnam, the least affected of the six countries studied, had the smallest response, at 5.5 percent of GDP, most of which went directly to firms. The stringent mobility restrictions measures imposed early on caused significant declines in employment. Support to firms through income tax deferrals and reductions favored large and medium-sized firms, which might have shed more workers without such support. The almost exclusive reliance on revenue measures left out businesses that did not pay government fees or taxes because of their informal nature. In addition, assistance to households was limited, reaching only a small share of households, and benefits were modest and short-lived. Government cash support was more likely to go to formal workers than informal ones.

What Worked? What Didn't?

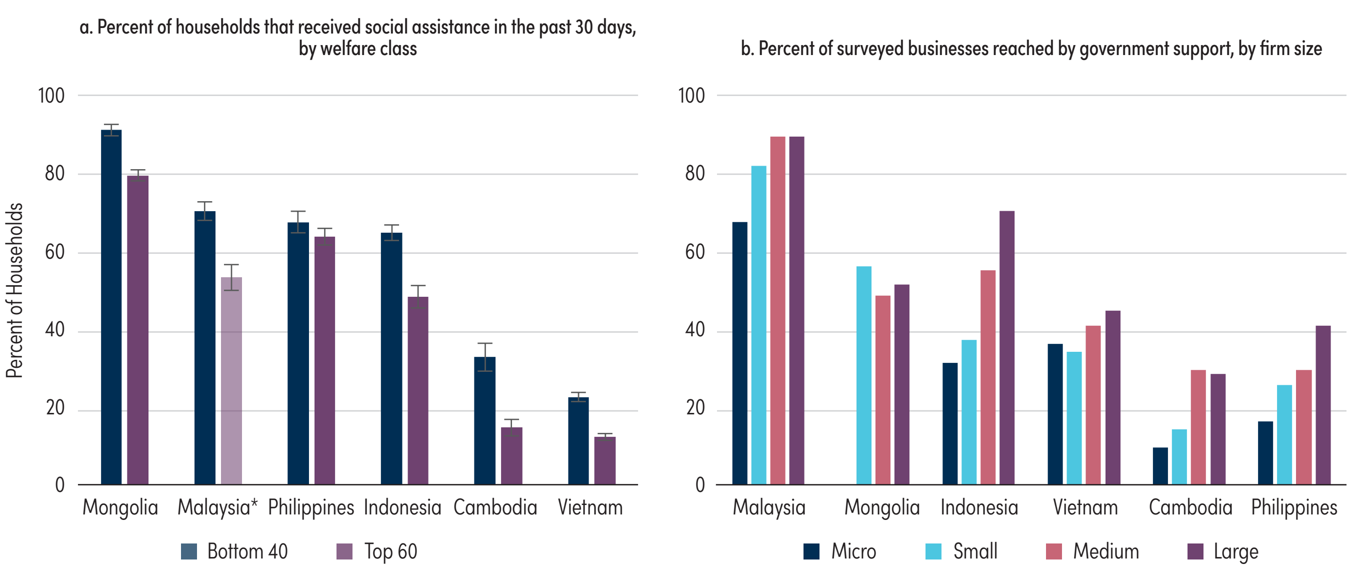
Although it is too early to provide a comprehensive, detailed assessment of what did and did not work best to enable workers, households, and firms to recover from the pandemic-induced recession, a few preliminary insights have emerged.

Lessons learned about support to households

The experience of the six countries studied suggests that three broad features likely helped:

- **Strong reliance on existing social protection programs** that targeted the poor and vulnerable meant that COVID-19-related social assistance to households was generally pro-poor (Figure ES.4, panel a). Cambodia, which has only a nascent social protection system, successfully reached poorer households thanks to its reliance on its IDPoor program. Timely assistance helped households avert severe food insecurity in Mongolia and the Philippines.
- As the impacts of the pandemic were widespread, the **use of multiple and complementary instruments** proved helpful in expanding coverage beyond the traditional poor. New programs and expansions of social insurance helped reach informal workers in Indonesia, Malaysia, and Mongolia. Cash-for-work programs in Cambodia, Indonesia, and the Philippines reached informal workers, many of whom were deemed not poor enough to qualify for social assistance or were not covered by social insurance programs. However, the programs were small and short-lived. The combination of such programs in the future may help reach informal workers and the poor in times of crisis.
- **Innovations in delivery systems** improved the effectiveness of support. Malaysia's enrollment mechanisms, which benefitted from advanced information technology systems and digital infrastructure, allowed it to rapidly roll out emergency cash assistance. Using digital solutions to deliver assistance can improve the speed, transparency, and accountability of cash transfers more broadly in the future.

FIGURE ES.4 Government support to households and firms



Sources: Data from high-frequency phone surveys (panel a), business pulse surveys, and Enterprise Surveys (panel b).
Note: Averages are across rounds for each country. Error bars represent 95% confidence intervals. In panel a, for Malaysia, self-reported income brackets are used instead of the welfare distribution to define the bottom 40 and top 60. Welfare groups are based on pre-pandemic household welfare.

At the same time, the pandemic exposed the **limits of the social protection systems** in place:

- Countries with **limited social assistance programs pre-pandemic struggled to respond quickly and efficiently** to the pandemic. Implementation challenges were widespread in the Philippines and Vietnam, which delayed the timely provision of benefits and revealed the shortcomings of national systems of delivery and identification. Updating social registries amid a crisis proved problematic in Indonesia, particularly with mobility restrictions in place. The lack of the use of digital technology in several countries also limited the delivery of much-needed cash assistance.
- The expansion of existing social assistance programs was largely pro-poor, but even countries with strong social safety nets could not **identify households more likely to experience income losses** or those most vulnerable to the pandemic-induced economic shock. The targeting of assistance was sometimes too narrow, as in Cambodia; or too broad, as in Mongolia.
- With the exception of Mongolia, **social assistance was short-lived** and was subsequently rolled back in 2021, despite persistent labor income losses.
- **Public works have often helped support informal employment in times of crisis**, yet their use in the region was limited. Where used, these typically had low coverage, duration, and benefit levels. Nonetheless, cash-for-work programs could be adapted to support pandemic containment and health measures, including through digital public works activities.

Lessons learned about support to firms

The analysis yields four insights into what helped firms weather the disruption and recover from the pandemic:

- **Digital solutions helped firms in all six countries weather the economic shock** of the pandemic. Firms either intensified the use of digital technologies or adopted them for the first time. This strategy helped firms keep revenue streams flowing and manage suppliers and budgets—but it also meant that less technologically savvy firms fell further behind. The digital divide was evident in some countries, such as the Philippines and Malaysia, where small firms struggled. Economies with solid information and communications technology (ICT) infrastructure fared better during the pandemic than economies with weak ICT infrastructure.
- Other business environments and macro variables affected how countries weathered and recovered from the crisis. **A good business environment**—including a sound financial system, as in Malaysia—and **diversified trade**—as in Vietnam and Malaysia—was correlated with economic success.
- While efforts to provide income support directly to firms, and liquidity through financial markets, generally paid off, **targeted payment deferrals programs may have better addressed the working capital crunch faced by businesses during the recession**. A sudden revenue drop, coupled with continued financial commitments, strained firms' working capital. Under these conditions, a temporary cessation of payment obligations better-allowed businesses to conserve working capital to keep operating and avoid defaults and possible insolvency. All six countries provided tax deferrals; however, Mongolia was the only one that provided deferrals on loan payments.

- **Wage subsidies, used in all six countries, helped** mitigate liquidity constraints, reducing layoffs and thus upholding the employee-employer relationship during the crisis. The wage subsidy provided to small businesses in the Philippines helped to stem job losses when strict lockdown measures were in place (ILO 2021).

The analysis also revealed significant gaps in the reach of policy support to businesses. In particular, smaller firms in sectors such as hospitality, which faced some of the most significant declines in sales, had the most limited access to policy support. In Cambodia, the Philippines, and Vietnam, government support left out most smaller businesses (Figure ES.4). Given the need to act quickly in the early stages of the pandemic, governments tended to adopt a targeting strategy that minimized exclusion, rather than carefully targeting beneficiaries, which would have taken time. As a result, many firms that did not experience severe adverse effects of the COVID-19 disruption received government support, though many that suffered badly did not.

What should governments focus on as economies emerge from the economic shock of the pandemic?

Expanding social protection systems and providing timely support to businesses proved crucial to protect households and firms during the crisis. As countries move on to the next phase of recovery and cope with overlapping challenges, including inflation, changing global trade partners, and the Russian Federation's war in Ukraine, government budgets may need to be contained. Knowing which programs work will help governments assess how and when to curtail assistance. Such knowledge will increase their effectiveness, not only in crises but also in times of relative stability.

The most important lesson is preparing for, rather than responding to, the next economic disruption as it unfolds. Investments in robust social safety protection, health systems, and insolvency practices helped some countries. Yet, better data could have saved governments money. The COVID-19 crisis has revealed how vital robust, credible monitoring and evaluation systems are to ensure that policies are effective and support the people and businesses most in need.

The high levels of informality in the region meant that many businesses and individuals slipped through the cracks of support, despite experiencing some of the largest losses. Policymakers need to focus on how to help businesses and individuals that are not covered by direct government support to recover. Labor market policies that promote formalization, as in Malaysia, could prove helpful. Providing workers in the informal sector with unemployment insurance would also help; Malaysia is an excellent example of this. In addition, firms hardest hit by the crisis—namely, young, small firms in sectors that require physical proximity—may need government support for longer than other firms.

As they recover, countries will need to adopt or expand active labor market policies, including hiring incentives and well-targeted training programs. Such policies can support a transition back to more productive employment, counteracting the increased employment in lower-productivity, informal jobs seen in some countries.

Some measures that proved helpful during the crisis may need to be pulled back as economies recover. Utility subsidies reached affected households beyond the traditionally poor, but they are costly, especially in the context of increasing fuel prices, and generally regressive. Wage subsidies also helped businesses retain workers as the pandemic hit. Still, they are inefficient in the long run because they hinder the reallocation of workers from less productive to more productive firms and sectors. Providing or expanding unemployment insurance and broadening social safety nets that can quickly adapt to disruption are better ways to ensure that workers do not bear the brunt of recessions.

Research Agenda

The effects of the first two years of the pandemic on inequality and poverty are likely to have been severe. As new data becomes available, more will be known about the extent of the shock to households and firms. A few areas that merit exploration include the following:

- In some countries, employment recovery in 2021 was driven by the growth of more informal, lower-paying jobs, which could reduce the quality of the output recovery. It is essential to determine whether a structural change took place in which growth did not deliver more formal employment, as it did in the past.
- The crisis may have reversed some of women's recent gains in the labor market, as women were forced to take on extra care responsibilities. As economies recover, it will be necessary to monitor whether this change was short-lived or whether measures are needed to increase female participation in the labor force.
- Countries in EAP and around the world used wage subsidies to preserve the employee-employer relationship during the initial shock. Research could determine whether countries that spent more on wage subsidies also saw lower declines in employment and if the additional spending enhanced productivity.
- The pandemic likely affected countries' long-term prospects by reducing human capital accumulation among the young. Understanding how long-lasting these losses are and what can be done to recover them should be a priority.
- Within countries, the pandemic impacted small firms more severely than large ones. Research could be undertaken to determine whether, depending on other conditional factors, countries with larger amounts of small businesses in the economy suffered more.
- International trade plunged in 2020 but rebounded in 2021. The heterogeneity of impacts and changes in trade flows across products, sources, and destinations created high uncertainty and imposed adjustment costs on firms. Research could investigate why some countries, sectors, and firms recovered reasonably quickly, even when exposed to plunging trade, whereas others have yet to recover.
- Much has been written about the role of the investment climate, or business environment, in contributing to a more efficient economy. This recession and its nascent recovery may reveal the investment climate as a shock absorber and recovery facilitator.
- There is much evidence of the high adoption of digital technologies and teleworking due to the COVID-19 pandemic. It is possible that COVID changed the direction of technical change toward specific kinds of digital technology, but that overall diffusion and productivity growth have fallen. Whether productivity will sustainably increase due to these new technologies is not yet clear.

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