

Entrepreneurship in Times of Covid-19: A Regional Perspective

Philip McCann

University of Sheffield

The Covid-19 Pandemic: Macroeconomic Shocks

- Extraordinary (Emergency) Situation: Dramatic cut-backs in consumption, production and investment activities as well as in the social interaction activities of business and commerce
- Rapid move from 'normal' risk-determined times to radical uncertainty with expected further pandemic lags
- Slow recovery transition from extraordinary to the 'ordinary'/'new normal' → investors, employers and households expectations are weakly grounded – fears of new waves of the pandemic
- No consensus regarding the speed or path of recovery – due to scale of the downward supply and demand shocks: V-shaped, Nike 'swoosh strip'-shaped, Z-shaped, W-shaped, U-shaped, L-shaped?

The Covid-19 Pandemic: Sectoral and Structural Implications

- Global economy-wide shutdowns, disruption to Global Value-Chains (GVCs) and collapse of international demand
- Disruption to Global Value-Chains (GVCs) – on the supply side these tends to be pan-regional so trade-contagion effects across neighbouring countries – this also requires a coordinated re-opening up of countries
- Trade policy: some rationalisation of GVCs and ‘near-shoring’ of activities – but opportunities for this depend on existing global trade and network structures
- Possibility of increased automation, 3D-printing, more rapid introduction of Artificial Intelligence – heavily contingent on financial markets but avoids challenges of social distancing
- Experience of previous recessions – increased productivity but not the 2008 crisis

The Covid-19 Pandemic: Sectoral Shocks

- Structural and spatial shocks
- Specific challenges for hospitality, travel and tourism, automotive, high street retail, – collapse of international demand – some medium term domestic demand response
- Graduates and school-leavers' job-markets and university towns will be heavily affected as will many education and training routes
- Scale of scarring depends on the time to develop a vaccine
- Opening up process: transition from extraordinary to 'ordinary'/'new normal' → problem of tapering of support rather than a 'cliff-edge' – no consensus as yet

The Covid-19 Pandemic: Capital & Spatial Shocks

- Capital shocks are the most important drivers of regional convergence or divergence
- Widening of yields and risk spreads both between and within all asset classes
- Massive capital reallocation – different forms of credit and lending, restructuring in money and asset markets
- Widening of risk spreads across regions → increases interregional divergence
- Initial 2020 shocks: cities/more prosperous regions → rest of regions.
- Longer term patterns are likely to be similar to the 2008 crisis – shorter-term effects on prosperous and core areas followed by longer term effects on rest of the regions

The Covid-19 Pandemic: Spatial Implications

- Some reduction of commuting (increased home-working) and increases in on-line shopping – but not for high-value activities built on tacit information
- Advantages for rural regions close to urban areas
- Shocks to the built environment in cities – reconfiguration of workspaces - redesign of real estate developments – and cancellation or postponements of many real estate developments
- Core city agglomeration advantages stalled in the short-term
- Reduced commuting frequencies can benefit largest and most prosperous cities
- Weaker city regions will suffer the most

The Covid-19 Pandemic: Spatial Shocks

- Reasons: diversity, human capital, connectivity, resilience → investors' shifting perceptions of relative risk
- Teleworking and telecommuting – face-to-face and telecommuting are complements for business generation
- In the current crisis they are being used as substitutes – but advantages for knowledge workers with already-strong networks
- Capital shock will favour these more prosperous and resilient regions
- Major challenges for SMEs – cut-backs in credit availability (squeezed from above as well as clawbacks) – and especially innovative SMEs (reduced bank credit, reversal of VC markets)
- Private Equity and some hedge funds are probably the only 'winners'

The Covid-19 Pandemic: SME & Entrepreneurship and Innovation Implications

- Bigger government debt and deficits – and ‘ownership’ of key parts of the economy
- Increased power and role of national government – but speed and scale of fiscal retrenchment uncertain - willingness of markets to lend to governments in unknown
- Local administrations have been key to immediate responses in many countries – health services, information provision, community care, education reorganisation, travel and mobility management, waste management, policing and security
- Roles depend partly on levels of devolution
- Post-pandemic some reconsideration of centre-local place-based relationships for resilience

The Covid-19 Pandemic: Long-Term Governance Implications

- Capital shocks and a widening of investment yields will tend to increase interregional divergence
- Shifts to greater concentration and monopoly positions in private-sector market – tends to increase interregional divergence
- Bigger role for central government – tends to increase interregional divergence
- SMEs – especially innovative SMEs – and the cores of weaker cities will suffer the most
- Place-based SDG responses → opportunity ‘build back’ differently – local learning from other cities and regions
-

The Covid-19 Pandemic: Long-Term Governance Implications

- Longer term local public finance challenges for central-local relations
- Pandemic coordination experiences: need to learn lessons country-by-country of what worked well and what did not
- Also, key place-based lessons and experiences of the transition process
- Need to re-think central-local balance of responsibilities in different arenas of governance based on evidence
- Insights for institutional and governance alignment both during the extraordinary and also the transition to 'ordinary'/'new normal'

The Covid-19 Pandemic: Long-Term Governance Implications

- Longer term uncertain policy environment – rise of nationalist and authoritarian responses due to a ‘geography of discontent’
- Lack of international coordination – health is a national competence – but a problem of perceptions
- Pandemics require coordination but so does climate change mitigation, trade promotion, R&D, knowledge flows and innovation
- Progress towards Sustainable Development Goals and Paris Agreement targets may be interrupted or reversed by the recovery process – only temporary reduction of GHGs