

INSIGHT

Supporting the Transition to Remote or Contactless Transactions



Online order and delivery of groceries and foods are thriving in the new normal. Photo credit: ADB.
Governments should provide policy and financial support to industries that shift to remote or noncontact transactions to cope with COVID-19.

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Introduction

Restrictions on movement of people to contain the coronavirus (COVID-19) pandemic have disrupted value chains. On the other hand, this has encouraged the growth of industries and businesses that engage in or support remote or noncontact transactions. Lifestyle and social systems are transitioning as well toward a remote or noncontact environment.

Given this development, government and the financial sector need to study these growing industries to provide better policy and financial support.

Analysis

The pandemic is repressing overall domestic demand and exports, sending economic shocks to the value chain. On the demand side, restrictions on movement of goods and people have hurt sales, especially those using traditional distribution channels. In February, retail sales in the Republic of Korea fell sharply on a month-on-month basis at 6.0%. In the first quarter of 2020, retail sales dwindled by 6.4% from last year's record. Reduced demand led to a decline in assembly and processing work, and an increase in stocks of raw materials. In April, the inventory rate of the manufacturing sector stood at 119.1%, up by 8.1 percentage points in a month.

On the supply side, assembly of automobiles, smartphones, and related parts decreased sharply. In May, exports of car parts are estimated at \$650 million, 66.7% lower than the previous year, due to suspended operation of overseas automobile plants and a delayed return to normal activities. Automobile production also fell by 36.9% over the same period because of the reduced number of production days. In the second quarter, leading smartphone manufacturers are expected to produce 286.8 million units, a steep drop of 16.5% from a year ago.

As economic shocks are expected to continue because of the pandemic, there is a growing need to rebuild the value chain. The value chain of the Republic of Korea's key industries (e.g., automobile, semiconductor) are dispersed among many countries. As of 2017, the country's global value chain (GVC) participation rate was 55%, compared with 44% for the United States, 51% for Germany, 45% for Japan, and 50% for the United Kingdom, indicating a higher reliance on overseas production. The current pandemic disrupted the supply of key materials, equipment, and parts from overseas, raising the need for reshoring or to further disperse or relocate production bases.

Meanwhile, businesses that engage in or make use of remote or noncontact transactions are growing. Remote medical service, online class, and web-based events are some of the leading examples. Their growth adds to the importance of a data center and data analysis. Likewise, e-commerce, delivery, and digital commodities like e-books, games, and films are some of the businesses that use noncontact transactions. Their growth leads to the expansion of digital platforms, more efficient logistics and delivery systems, and a sharp drop in cash spending.

Unmanned stores and factories that make use of artificial intelligence (AI), Internet of Things, and blockchain technology are gradually expanding as well. In April, retail sales at unmanned stores rose by 18.1% year-over-year.

The pandemic has accelerated the transition of lifestyle and social systems toward this remote or noncontact mode. More companies are adapting business operation strategies that emphasize the value of human life and a life-oriented society. Companies like [Twitter](#) and [Facebook](#) have allowed their employees to work from home for an extended time. Social historians dubbed this year as a prelude to the new era or a return to the normal. Until the 19th century, most people worked at home or near home. Boundaries between workplace and home, and between working days and holidays would be blurred in the AD (after domestication) era.

The demand for smart homes is growing, and related businesses are expected to rise. Meanwhile, the workplace would demand an enhanced IT environment to make way for remote conferences, remote training, and shared office space. AI-based online medical services would also grow. Online ordering and delivery of groceries and food are already thriving just like online classes.

A transition toward a remote or contactless mode is already underway in the areas of production, delivery, sales, employment, and public service. Drones and unmanned cars are already in use for delivery. Online sales and cashless transactions are widespread. As the demand for IT and data center grows, lease or sharing of related equipment is expected to become more popular. The use of an outplacement system is likely to grow to link job seekers with potential employers. Likewise, digitalization and providing digital barrier-free services would be a trend in public service.

Implication

The government and financial firms must identify the characteristics of newly growing industries in terms of inter-industrial relationships, business stages, and funding needs, and provide policy and financial support accordingly. However, too much support for newly rising businesses might create bubbles as was the case of the dot-com and venture bubbles in the past. Lastly, in supporting industries, the government should not lose sight of issues related to restructuring or reorganizing of other industries, including adjustments in employment.

Resources

K. Paul. 2020. [Twitter Announces Employees Will Be Allowed to Work from Home 'Forever'](#). *The Guardian*.

[Korea Institute of Finance website](#).

M. Koran. 2020. [Facebook Expects Half of Employees to Work Remotely Over Next Five to 10 Years](#). *The Guardian*.

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