Summary of World Economic Forum (2020)  
Author: Ema Gusheva

**Summary**

The crisis has accelerated pre-COVID economic trends such as the rise of the digital economy and protectionism in developed nations as a reaction to the rise of China. It is inevitable that global economies are in for a deep prolonged recession, which will disproportionally affect marginalized groups. Before the second wave there were early signs of recovery as consumer levels slowly returned to pre-COVID values, which has caused for optimistic investment and market forecasts. The report summarizes the economic outlooks of the WEF’s community of chief economists. There was agreement that unemployment figures, although offset by government subsidies, are most indicative of medium-term economic development. Further, disruptions in global supply chains will reverse international economic convergence, which means that emerging economies need to reconsider their growth models. Unfortunately, they predicted contractions in innovation funds, which will undermine global economic growth potential. Last, there is little agreement that the ESG agenda will remain relevant, although most policy making is focused solely on GDP recovery, which is more in line with a ‘quick recovery’ rather than a ‘green recovery’.

**Implications for infrastructure**

The report outlines three emerging themes. There is wide agreement for the need to create progressive tax architectures to limit the effect of the crisis on inequality. Next, there is little consensus on the role of government in promoting innovation processes. Last, there is agreement that policies should be targeted at growth sectors specifically rather than protecting all jobs. Therefore, infrastructure companies can follow these trends by re-thinking how to limit inequality, invest in innovation and pivot to businesses areas with growth potential through re-training schemes.

**Stock-and-flow diagram**

The model is divided into three sectors according to the three challenges mentioned by World Economic Forum (2020). First, in terms of inequality and social mobility (see Figure 1) a distinguishment is made between high skilled and low skilled workers as well as their income. Low skilled workers typically have lower income and therefore get stuck in a ‘poverty’ loop where they are unable to invest in re-training even though automation has made their work somewhat redundant. The current economic crisis has disproportionate effects on low skilled workers and on other marginalized groups who may find themselves in this kind of vicious loop. The report advises that this gap needs to be addressed through progressive taxes architecture so that the burden is not shared equally because it is not distributed equally in the first place. Similarly, the burden is felt more by youth or flexi workers as those are typically with temporary work contracts and have not received as much support through measures as workers with permanent placements, pointing the finger at another widening divide. Therefore, the report proposes a shift to enlarge policy making to address the full scope of labor supply including transitions between employers, continuous learning and support during periods of inactivity.



Figure 1. Stock and flow model based on World Economic Forum (2020)

Next, the challenge of new sources of economic growth is analyzed (see Figure 2). The World Economic Forum is a strong supporter of stakeholder capitalism and investment in a new economy which values natural and human capital as much as financial capital. Despite the gloomy outlook on R&D financing during this crisis, they stress that such funds together with investments in new infrastructure are key to shifting to a new economy and unlocking the potential for sustainable growth. Both public and private actors have a role to play in this as they can multiply one another’s actions, which is evident in the reinforcing loops.

The crisis has amplified protectionism trends, which were already taking place pre-COVID. Economists argue that it will halt international economic convergence by disrupting old growth models. While in the past companies offshored manufacturing to developing countries because of cheaper labor cost, thereby boosting developing countries GDP, automation and protectionism has slowed down this trend. In addition, concern over supply chain resilience is also expected to put a strain on such offshoring and disrupt developing country economic growth. However, at the same time, there is a new opportunity brought by the COVID-19 crisis and that is the possibility to offshore services and office work. The crisis has accelerated the trend of adoption of remote work, which open up the possibility of a new growth model for developing countries – one based on human capital – which may still contribute to maintaining the trend of international income convergence.

Finally, the World Economic Forum is a proponent of new targets for economic performance as they argue that a shift in metrics can cause a shift in decision-making in the direction of promoting business resilience (see Figure 1). This is supported by the finding that companies that have adopted the ESG framework have been more resilient to the crisis than those that have not (see Table 1).



Figure 2. Stock-and-flow diagram based on World Economic Forum (2020). The dotted arrow is an assumption induced from the document.

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| **N.** | **Page** | **Quote** | **Causal link** |
| 1 | 9 | Inequality has been accelerating in recent years, in part as technological change has driven a wedge between high- and low-skilled workers and given rise to network effects that have unleashed winner-take-all dynamics across a number of industries. | Low skilled workers -> Retraining -> High skilled workers  Low skilled workers -> Change in low skilled workers income -> Low skilled workers income -> Re-training -> Low skilled workers |
| 2 | 9 | In the case of high-income economies, the broad adoption of digital technologies has compounded country-level inequality patterns shaped by the forces of global integration. | High skilled workers -> Digitalization -> Change in high skilled workers income -? High skilled workers income |
| 3 | 10 | A world in which coronavirus debts are repaid by a wealth tax or a global crackdown on corporate tax havens would look very different from one in which benefits are slashed and VAT is raised | Progressive tax architecture -> Change in high skilled workers income |
| 4 | 10 | The COVID-19 crisis descended on labour markets at a time when conditions for workers were already under strain from automation and the number of jobs without permanent contracts and benefits was growing. | Unemployed labor supply -> Temporary work contract rate -> Temporary employees -> Contract end rate -> Unemployed labor supply |
| 5 | 11 | Policy attention needs to shift from jobs alone to consider the full evolution of working lives today, including transitions between employers, continuous retraining, upskilling and life-long learning, as well as support during periods of inactivity. | Unemployed labor supply -> Permanent work contract rate ->Permanent employees -> Job loss -> Unemployed labor supply |
| 6 | 11 | The economic contraction cannot be expected to spare resources allocated to R&D, despite the fact that innovation has never been more critical than at this current juncture to manage climate change and expand opportunity for all. | Change in R&D resources -> R&D resources -> Natural capital -> Change in R&D resources  Change in R&D resources -> R&D resources -> Human capital -> Change in R&D resources |
| 7 | 11 | Inclusive and sustainable growth powered by lower resource use will be necessary to pay down unprecedented public and private debt burdens. | Change in R&D resources -> R&D resources -> Financial capital -> Change in R&D resources |
| 8 | 11 | The crisis could also result in long-term damage to trading ties between high- and low-income countries, | Industrial labor cost developing country -> Trade in goods -> Change in GDP developed country  Industrial labor cost developed country -> Trade in goods -> Change in GDP developing country |
| 9 | 12 | These are all areas where the use of technology and market forces could have a transformative impact on economies and societies through multiplier effects on employment, social capital and environmental returns; yet, some of the necessary preconditions for these markets to function are lacking. | Change in infrastructure for new economies -> Infrastructure for new economies -> Natural capital -> Change in infrastructure for new economies  Change in infrastructure for new economies -> Infrastructure for new economies -> Human capital -> Change in infrastructure for new economies  Change in infrastructure for new economies -> Infrastructure for new economies -> Financial capital -> Change in infrastructure for new economies |
| 10 | 12 | Globalization has been among the most important drivers of international income convergence in recent decades. | Developed country industrial GDP -> Average industrial wage developed country -> Industrial labor cost developed country -> Change in industrial GDP developing country -> Developing country industrial GDP -> Average industrial wage developing country -> Industrial labor cost developing country -> Change in industrial GDP developed country -> Developed country industrial GDP |
| 11 | 12 | As routine tasks could increasingly be automated, it became cheaper to repatriate them to headquarter countries | Developed country industrial GDP -> Automation -> Industrial labor cost developed country |
| 12 | 13 | This could turn into an opportunity for emerging markets to offer competitively priced services based on differences in the wages of skilled workers across countries, offering new opportunities for imagining a new future economic development model, one that also entails higher investment in human capital | Developed country service GDP -> Average service wage developed country -> Service labor cost developed country -> Trade in services -> Change in developed country service GDP -> Developed country service GDP  Developing country service GDP -> Average service wage developing country -> Service labor cost developing country -> Trade in services -> Change in developing country service GDP -> Developing country service GDP |
| 13 | 13 | Recent experience suggests that companies that have consistently applied the principles of stakeholder capitalism during the crisis – paying attention to the well-being of their employees, suppliers and customers to the same degree as considering the immediate interests of their shareholders – have weathered the crisis better than others. | Extent to which a company follows ESG standards -> Resilience -> Change in capital |
| 14 | 14 | Yet, the implementation of ESG standards, which stretches from the implementation of diversity, equity and inclusion strategies to reduction in carbon emissions, is costly in the short-run. | Capital -> Extent to which a company follows ESG standards -> Change in capital -> Capital |

Table 1. Causal links found within World Economic Forum (2020)

**References**

World Economic Forum (2020) *Emerging pathways towards a post-COVID-19 reset and recovery.* http://www3.weforum.org/docs/WEF\_Emerging\_Pathways\_towards\_a\_Post-COVID-19\_Reset\_and\_Recovery\_2020\_final.pdf, accessed on 21 October 2020.