Section 1
Enabling Environment

1

Enabling Environment

An economy's enabling environment encompasses both formal and informal institutions; utilities and infrastructure such as transport, energy, water and telecommunications; as well as the framework conditions set by monetary and fiscal policy, and more broadly, public finances.

With worsening social and economic polarization and the looming threat of climate change, the economic foundations created by well-functioning institutions, a stable macroenvironment and high-quality infrastructure will be critical. However, the quality of a country's enabling environment will not only have to be assessed on its ability to support growth and productivity, but also on the ability to transform the economy to achieve environmental and shared prosperity targets.

This section lays out key trends in institutions, infrastructure and the macro environment, and proposes emerging priorities for short- and longer-term policy interventions to direct the economy towards productive, sustainable and inclusive outcomes.

Section 1.1 uses historical data to highlight trends in the institutional environment, infrastructure (both physical and ICT) and macro environment, and identifies vulnerabilities for future prosperity. Section 1.2 provides a set of priorities for policy interventions over the next two years, to set up the type of governance structures and incentives that could revive sustainable and inclusive growth past the COVID-19 crisis. Section 1.3 offers policy recommendations for the longer run (3-5 years) to hardwire social and environmental targets into governance structures, macro-economic policies and infrastructure development.

1.1 What are the enabling environment-related priorities that emerged in the past decade?

The following trends emerge for the enabling environment from the data collected since the Global Financial Crisis of 2007–2009.

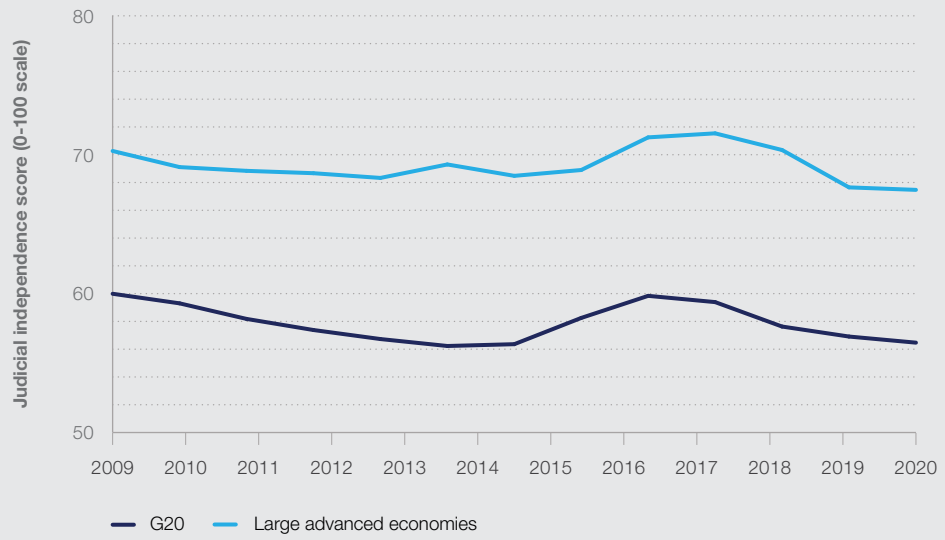
There has been a consistent erosion of institutions across regions, including weaker checks and balances and less transparency.

Well-functioning formal and informal institutions are critical, both for guiding long-term economic progress and ensuring effective short-term crisis responses. The data from the Executive Opinion Survey suggests that business leaders see significant deterioration in important features of institutional quality over the past decade.

The perception of judicial independence declined by about 4.6% in G20 economies since the Global Financial Crisis (Figure 1.1). Similarly, the efficiency of legal framework in challenging regulations indicator, which measures the extent to which companies can effectively settle disputes with public authorities, declined by 7.9% in G20 economies from 2009–2020 (Figure 1.2).

FIGURE 1.1

Trends in judicial independence in G20 economies and in large advanced economies, 2009–2020



Source

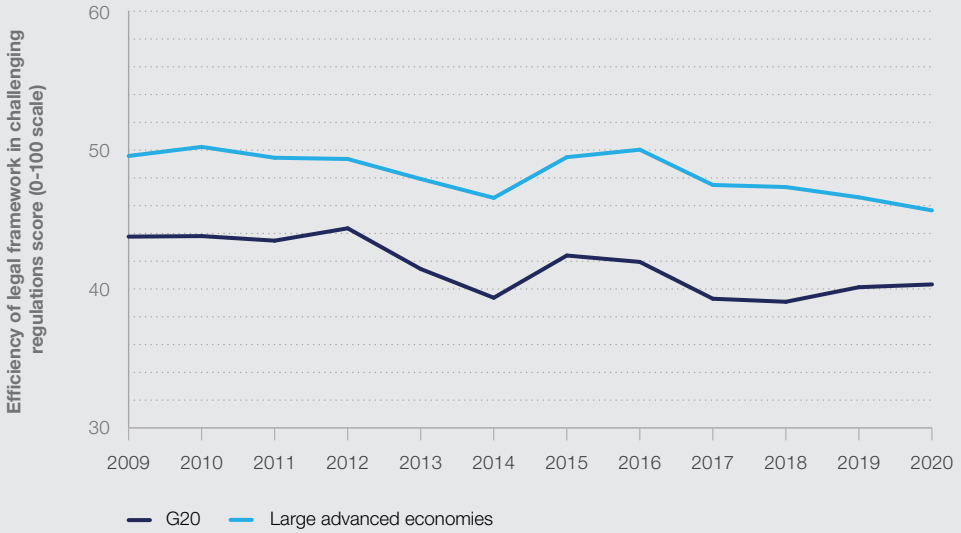
World Economic Forum, Executive Opinion Survey (various editions). See Appendix B for details.

Note

Large advanced economies Include Australia, Canada, Germany, France, United Kingdom, Italy, Japan, Republic of Korea and United States. The G20 economies included in the data set are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russian Federation, Saudi Arabia, South Africa, Turkey, United Kingdom and United States. The Judicial independence indicator corresponds to the response to the survey question "In your country, how independent is the judicial system from influences of the government, individuals, or companies?" [0 = not independent at all; 100 = entirely independent].

FIGURE 1.2

Trends in the efficiency of legal frameworks in challenging regulations in G20 and in large advanced economies, 2009–2020



Source

World Economic Forum, Executive Opinion Survey (various editions). See Appendix B for details.

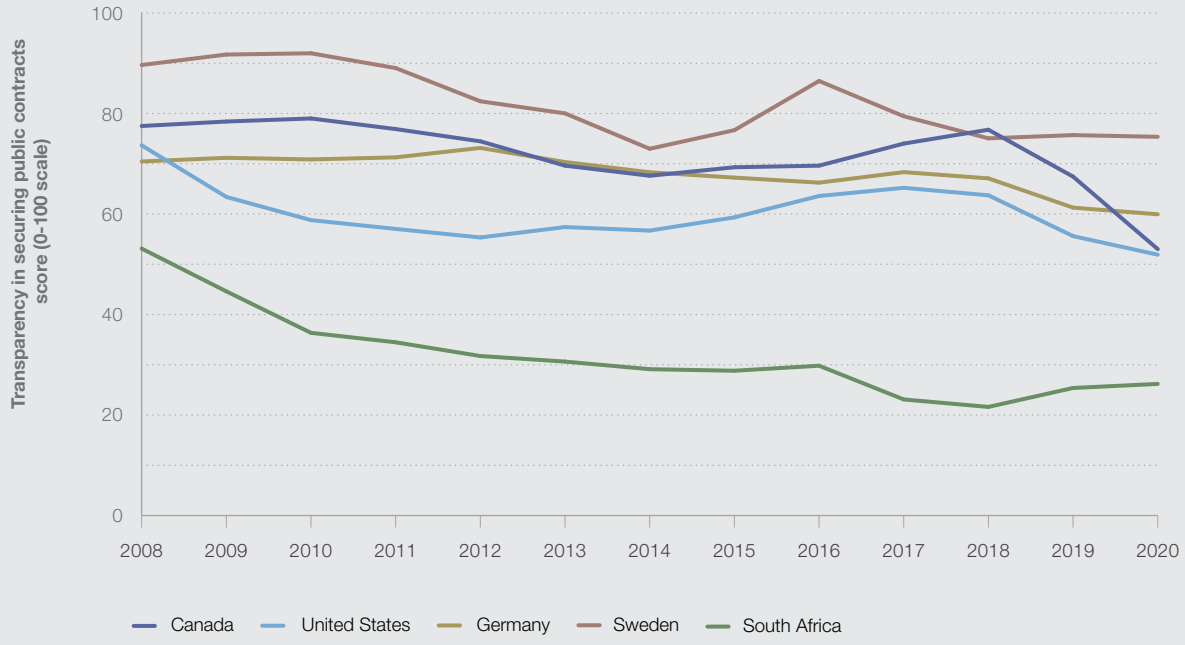
Note

Large advanced economies include Australia, Canada, Germany, France, United Kingdom, Italy, Japan, Republic of Korea and United States. The G20 economies included in the data set are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russian Federation, Saudi Arabia, South Africa, Turkey, United Kingdom and United States. The Efficiencey of legal framework in challenging regulations indicator corresponds to the response to the survey question "In your country, how easy is it for private businesses to challenge government actions and/or regulations through the legal system?" [0 = extremely difficult; 100= extremely easy].

The second aspect of institutional quality where business leaders' perceptions have remained persistently low globally or declined is transparency. For instance, in some advanced and emerging countries, transparency in securing public contracts has been on a declining trend (Figure 1.3). More generally, the transparency gap—as measured by the Corruption Perception Index (CPI)—between the best and the lowest performers is large: to date, 31 points (on a 0–100 scale) separate the average score of the 10 most transparent countries from the average of the least transparent ones, and 10 points separate the average score of advanced economies from the average score of emerging and developing countries.

Persistent transparency gaps affect citizens' trust in institutions. As shown in Figure 1.4, public trust of government and transparency go hand in hand in the majority of OECD countries. The COVID-19 crisis happened at a moment when, in several economies, trust in the credibility of political leaders was already low. However, the pandemic has also offered an opportunity for governments to regain trust by implementing emergency measures in speedy and transparent ways, and public policies that set countries on a new trajectory of shared prosperity.

FIGURE 1.3 **Trends in transparency in securing public contracts, selected economies, 2008–2020**



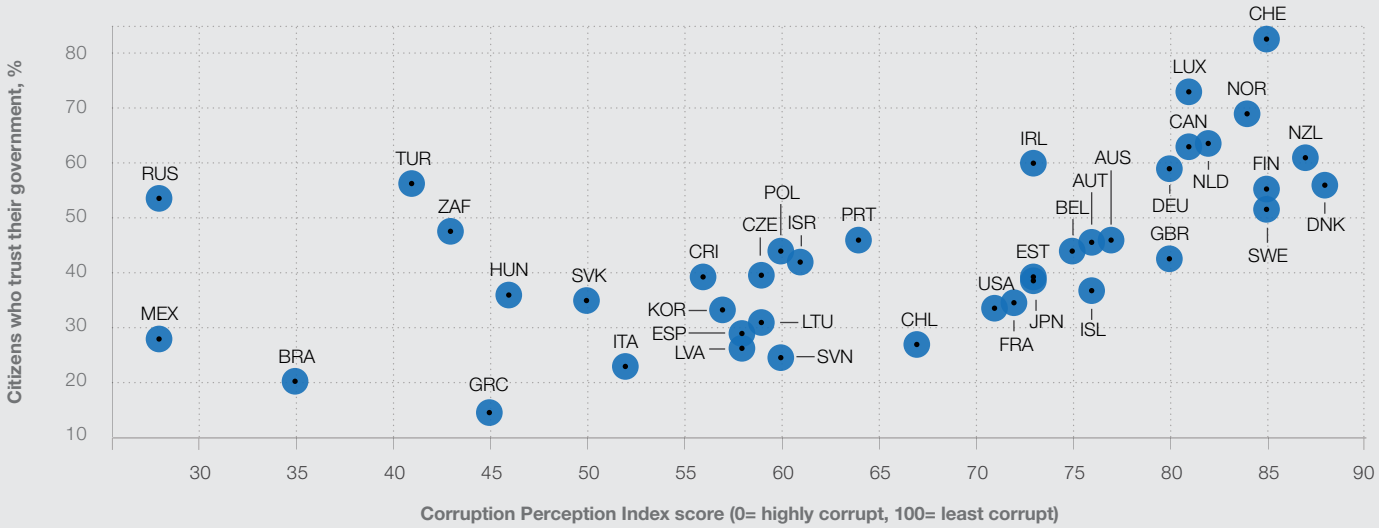
Source

World Economic Forum, Executive Opinion Survey (various editions). See Appendix B for details.

Note

The Transparency in securing public contracts indicator corresponds to the response to the survey question "In your country, how common is it for companies to make undocumented extra payments or bribes in connection with awarding of public contracts and licences? [0 = very common; 100 = never occurs]".

FIGURE 1.4 **Trust in government and Corruption Perception Index, selected economies**



Source

Author calculations based on OECD, OECD Data, "Trust in government" indicator, https://data.oecd.org/gga/trust-in-government.htm, accessed 25 September 2020; and Transparency International, Corruption Perception Index (2019).

Notes

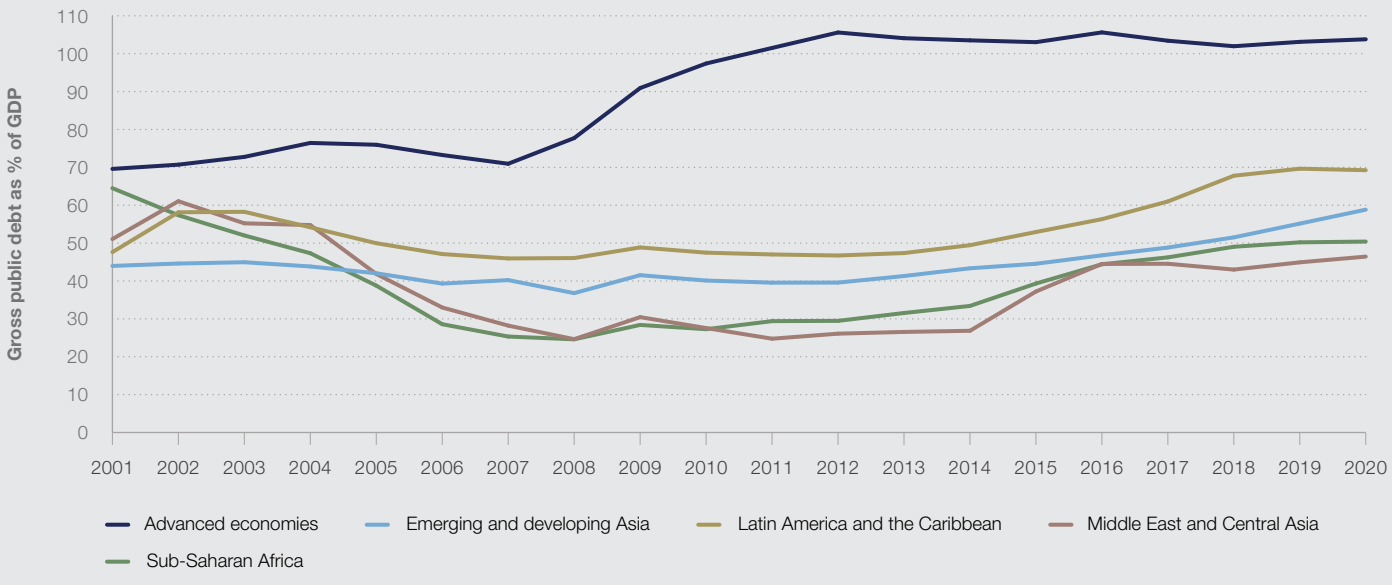
Data set includes the following economies: Greece, Chile, Spain, Brazil, Finland, Slovenia, Mexico, United States, Australia, Belgium, Italy, South Africa, Denmark, France, Costa Rica, Luxembourg, Turkey, Sweden, United Kingdom, Estonia, Austria, Latvia, New Zealand, Canada, Netherlands, Russia, Republic of Korea, Hungary, Czech Republic, Portugal, Israel, Lithuania, Japan, Ireland, Iceland, Germany, Slovakia, Switzerland and Poland.

Emergency and stimulus measures have pushed already high public debt to unprecedented levels, against a backdrop of shifting tax bases.

The importance of maintaining budget discipline and macro-economic resilience during boom years becomes evident during crises, when public sector expenditure is crucial to keep the economy afloat.

Debt levels were already high before the crisis, relative to past decades. In advanced countries, efforts to respond to the 2008 global financial crisis and slow growth have kept debt levels to GDP 20% higher than pre-2008. In developing countries, debt-to-GDP ratios increased by 10-15% since the end of the commodity super-cycle in 2014 (Figure 1.5).

FIGURE 1.5 **Gross public debt-to-GDP ratios by region, 2001–2020**



Source

International Monetary Fund, *World Economic Outlook Database*, October 2019.

Note

Advanced economies as well as regional groups are defined according to International Monetary Fund *World Economic Outlook Database* classification.

In the wake of the COVID-19 crisis and the subsequent, necessary policy responses, advanced economies' debt-to-GDP ratios are expected to surge from 105.2% in 2019, to 122% by the end of 2020; in emerging G20 countries, from 54.2% to 63.3%; and in low-income, developing countries, from 43% to 47.4%.[3] As some countries entered the health crisis with already high debt levels and slowing growth, fiscal space has partially reduced the size of deficit-spending programmes. This has been further exacerbated by shifting and partially shrinking tax bases due to slower growth, profit-shifting by multinational firms, and relatively low levels of progressivity in households' taxation compared to the past.[4]

An increasing public-debt burden presents new challenges for future growth, potential debt sustainability challenges and financial instability, especially in developing countries. It also challenges current tax systems and calls for a review of tax structures. Further, in countries where trust in institutions is declining, there may be doubts about the efficacy of public spending of the large amounts being mobilized to stabilize the economy in th current crisis.

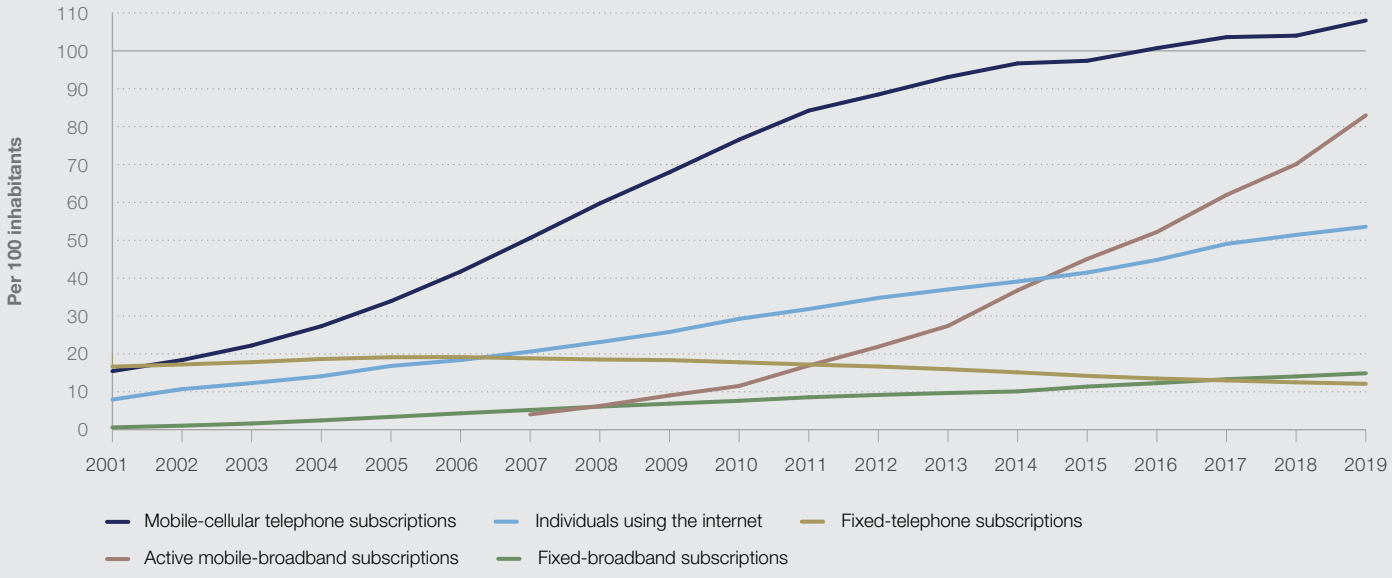
ICT access and use have been improving globally but remain far from universal, and the COVID-19 crisis has made catching up has become more difficult for developing economies while deepening advanced economies' digitalization.

Digitalization has advanced at a fast rate in the past decades. Globally, internet users doubled since 2010, surpassing 50% of the world population[5]; and every sector of the economy has seen a fast uptake of digital technologies (Figure 1.6). Despite this progress, however, large gaps in ICT adoption remain, and the digital divide—the disparity between those who have adequate access to ICT and those who do not—is still on the rise. Only 53.6% of the global population is using the internet and only 14.9% of the population has an active fixed-broadband subscription.[6]

Digital divides also persist within countries. Large shares of households or companies have not yet integrated into the digital economy. In the United States and Europe, 10% of fixed broadband subscribers can only use low-speed (below 10 Mbps) internet service and 30% of broadband subscriptions can use only internet connections below 30 Mbps.[7] In emerging and developing countries, digital exclusion is extreme: 95% of the offline population lives in these countries. Households that can access fixed broadband subscriptions are a minority (11.2%), and over one-half of all households can only use basic fixed-broadband connections, where speed is below 10 Mbps. In addition, electricity access in low-income countries is limited or unstable, further reducing the possibility to build a digital economy.[8]

With the outbreak of the COVID-19 pandemic the expansion of the digital economy has further accelerated in both advanced and emerging economies. Notably, the volume of e-commerce transactions has fast-tracked in several countries.

FIGURE 1.6 **Trends in Global ICT development, global average, 2001-2019**



Source

ITU World Telecommunication /ICT Indicators database (http://www.itu.int/ict/statistics).

For instance, in the United States, e-commerce has climbed by 24% in one year (July 2019-July 2020), after having increased by an average of 10% per year from 2010 to 2019. Globally, the number of e-learning courses has risen steeply, as over 1.2 billion children are out of schools due to COVID-19 measures this year.[9] Remote working, telemedicine, videoconferencing and online entertainment have all been on the rise since the beginning of the pandemic.

These trends are expected to continue in the next years, widening the gaps between digitalization leaders and followers, both across and within countries and across and within industries or companies.

1.2 What are the priorities for the enabling environment to lead to the revival of economies?

Improve the long-term thinking capacity within governments and mechanisms to deliver public services and support policy interventions digitally.

Perceptions by business leaders of forward-thinking and future preparedness by governments have been on an improving trend in a number of countries before the pandemic, but have flattened out this year, and overall their level remains low. There has been progress by governments in creating the frameworks for the private sector to advance the adoption of digital technologies and to implement environmental, social and governance standards; yet, overall, the preparedness and long-term vision of governments must improve to prepare for new challenges and proactive efforts at transformation towards more productivity, shared prosperity and sustainability.

Governments will also need to upgrade their own processes and services. It became apparent during the crisis that governments which had built out the digital delivery of public services were much better placed to disburse emergency funding to distressed companies and households. The Chinese government, for example, was able to build on Ant Financials' vast network to support millions of SMEs through the first wave of lockdowns.[10]

Long-term thinking by governments will further need to involve a deliberate shift to measuring economic success beyond GDP growth. A dashboard that considers people, planetary (environmental) and institutional targets on a par with growth objectives will need to be anchored in budget processes and become an integral part of a new narrative of economic performance.[11]

Prepare support measures for highly-indebted, low-income countries and plan for future public debt deleveraging.

The management of macro-economic sustainability in the recovery phase and in the next few years will determine if the growth trajectory will be burdened by debt and vicious cycles marked by public finance weakness and slower growth. Among most advanced countries, debt affordability is currently not at risk; but it seems inevitable that to finance COVID-19 policy responses related to taxation will have to increase in the future. Long-term prosperity will significantly depend on how public budget and fiscal policies are managed (e.g. how efficiently recovery packages are implemented and the maturity structure and composition of public debt) as well as on the structural capacity to grow more rapidly.

Developing countries, however, are in a significantly weaker position as some of them are already highly indebted—and highly-indebted countries tend to attain lower investment and productivity levels during recovery periods.[12] These countries will need the support of the international community and multilateral financial institutions to prevent defaults or situations where the cost of debt service diverts significant resources from economic and social policies budgets.[13] For instance, debt standstill arrangements that flatten the curve of debt rescheduling can help.[14]

Upgrade utilities and other infrastructure.

In order to close existing gaps, the world will need to invest $3.7 trillion, or 4.1% of global annual GDP a year, into infrastructure from 2017 to 2035—and 54% of this funding can be attributed to the needs of Asia. However, there is a projected shortfall of $5.5 trillion of infrastructure spending globally between 2017 and 2035, and this further varies regionally.[15]

The IMF estimates that allocating an additional 1% of GDP to public investment could create approximately 7 million jobs directly, and 20 million jobs indirectly worldwide. Maintaining and, where possible, expanding investments in transport, healthcare, housing, digitalization and energy transition would not only improve competitiveness, but also create more employment while preparing countries to become more resilient and sustainable.[16]

Effective infrastructure governance and management will be key to improving the efficiency of fund disbursement. To date, inefficient planning, allocation and implementation of infrastructure projects account for 30%-50% of expenditure losses; thus, countries could maintain their infrastructure budgets by streamlining and improving these processes.[17] Similarly, stronger frameworks for project selection, fiscal planning, comprehensive budgeting, fair procurement practices, project oversight and monitoring of public assets may contribute to building better infrastructure at a lower cost.

Prioritize closing the digital divide within and across countries for both firms and households

The impact of the pandemic crisis should serve as a wake-up call for countries that need to embrace the digitalization process, incentivize companies to move towards digital business models, and invest in ICT development and digital skills.

Two immediate implications follow for reviving economies. First, the technology frontier will move ahead faster than before: private sector spending on technology is only momentarily retracting in 2020, but it is expected rebound strongly in 2021 and companies are expected to almost double their investments dedicated to digital transformation initiatives in the next three years.[18] Economies that have been able to upgrade their ICT infrastructure and expand the adoption of digital technologies will be better equipped for the recovery phase, and those that are lagging behind could allocate parts of stimulus packages and policy action to this domain.

Second, digital transformation must occur hand in hand with human capital and legal framework developments. As technological advancements proceed, an economy's productivity gains rest upon the capacity of companies and households to take advantage of the opportunities offered by new technologies. At the same time, legal codes need to catch up with the digital world and provide certain and simple rules for digital business models (e.g. e-commerce, sharing economy, fintech).

Few countries are already advanced on all aspects (Table 1.1), and even countries where ICT is broadly diffused (e.g. Korea and Japan) may need to adapt their business organizational models accordingly in the next phase of economic revival.

TABLE 1.1

Top ten countries on ICT adoption, flexible work arrangements, digital skills and digital legal framework

	ICT adoption		Flexible work arrangements		Digital skills		Digital legal framework	
1	Korea, Rep.	93.7	Netherlands	82.7	Finland	84.3	United States	78.0
2	United Arab Emirates	92.3	New Zealand	77.7	Sweden	79.5	Luxembourg	77.4
3	Hong Kong SAR	90.2	Switzerland	75.8	Estonia	77.9	Singapore	76.5
4	Sweden	89.7	Estonia	75.0	Iceland	77.6	United Arab Emirates	72.5
5	Japan	88.3	United States	74.2	Netherlands	77.3	Malaysia	70.0
6	Singapore	88.1	Luxembourg	73.6	Singapore	77.3	Estonia	69.3
7	Iceland	87.8	China	73.6	Israel	76.5	Sweden	67.9
8	Norway	84.7	Australia	72.9	Denmark	74.7	Finland	67.7
9	Qatar	83.9	Finland	72.5	Saudi Arabia	74.1	Germany	67.3
10	Lithuania	83.8	Denmark	72.4	Korea, Rep.	73.0	Netherlands	65.5

Source

World Economic Forum, Executive Opinion Survey 2019-2020 and International Telecommunication Union (ITU), WTDS 2020 database.

Note

All scores are expressed on a 0-100 scale. ICT adoption is the average of the following indicators obtained from ITU: "Internet users% of adult population"; "mobile-cellular telephone subscriptions per 100 pop"; the ratio of "Fibre internet subscriptions per 100 p." to "Fixed broadband Internet subscriptionsper 100 pop."; the ratio of "Mobile-broadband subscriptions per 100" to "mobile-cellular telephone subscriptions per 100 pop". Flexible work arrangements: Response to the survey question "In your country, to what extent do companies offer flexible working arrangements (e.g., virtual teams, remote working, part-time employment)? 1=Not at all; 7=to a great extent. Digital skills refers to the response to the survey question "In your country, to what extent does the active population possess sufficient digital skills (e.g., computer skills, basic coding, digital reading)? 1=Not at all; 7=To a great extent. Digital legal framework refers to the response to the survey question "In your country, how fast is the legal framework of your country adapting to digital business models (e.g. e-commerce, sharing economy, fintech, etc.)?" [1 = not fast at all; 7 = very fast].

1.3 What are the priorities for the transformation of enabling environments?

Ensure public institutions embed strong governance principles and regain trust by serving their citizens.

Reform will need to go further than simply re-establishing more efficient versions of earlier frameworks for the institutional environment. For example, some historical institutional structures were deeply unfair to certain groups and need to be reformed more fundamentally in addition to improving overall institutional quality, legal certainty and judicial independence. Substantive institutional improvements will also go some way towards re-establishing trust between citizens and governments. The crisis has opened up an opportunity for governments to strengthen trust further. Those that acted swiftly and transparently to protect their populations, such as New Zealand, saw significant improvements in trust levels, while those which mismanaged the crisis lost credibility and the trust of their citizens.

Upgrade infrastructure to accelerate the energy transition and broaden access to electricity and ICT.

Infrastructure development in the future will need to embed sustainability and broad-based access criteria. For example, climate change mitigation requires rapid shifts in energy mix towards renewable energy sources. This not only requires stronger and wider political commitment (both in terms of funds and regulations), but also involves changes to urban planning, broadening access to green public spaces and upgrading public transport, as well as greater protection of biodiversity and natural habitats outside of urban spaces.

Similarly, wider access for all members of society to infrastructure will in some cases require longer term changes to enhance inclusion, including changes in market structure to expand competition. For example, the average price of the fixed-broadband basket (5 GB) is at least 20 times higher in emerging market and developing economies than in advanced economies, and the price that customers pay for a fixed-broadband basket is more than one-sixth of their salary.[19] More efforts are needed to improve affordability, expanding inclusion of companies and households into the digital economy.

Shift to more progressive taxation, rethinking how corporations, wealth and labour are taxed, nationally and in an international cooperative framework.

Discussions over changes to national and international tax architectures have gained a new urgency in the post-COVID economy, which is marked by significantly higher public debt levels and exacerbated historical inequalities. The crisis presents an opportunity to fundamentally rethink both tax structures and the set-up of social welfare, and adapt both to the realities of the Fourth Industrial Revolution.

Such a shift entails an international agreement on the taxation of digital activity as well as new approaches to addressing gains in wealth at the top end of the distribution by means of more progressive marginal income, wealth or capitals gains taxes. The nature of public spending on social security systems, too, will have to be upgraded from providing intermittent support to individuals in times of crisis to fostering capabilities and connections across and within communities over the lifecycle.

Section 2
Human Capital

2

Human Capital

Human capital—the capabilities and skills of individuals and populations—is a key driver of economic prosperity and productivity. It can be developed by ensuring individuals are able to sustain good health, and they are in possession of in-demand skills and capabilities. The value of human capital is realized in the labour market through productive employment, and it is developed through education during the first two decades of an individual's life as well as through mid-career training investments. Finally, a set of preconditions aligns incentives between workers and businesses—maintaining a tight connection between pay and productivity, meritocracy in pay and professionalization in firm management as preconditions for wider workforce productivity.[20] The challenges posed by the COVID-19 pandemic have reaffirmed the need to move beyond simply providing basic access to education and health. There is also a need to shift to active labour market policies and business practices that integrate education and health with mid-career training opportunities which match the needs of the labour market, safety nets for times of workforce disruption and workforce management underpinned by merit-based practices.

This section focuses on these aspects jointly. Section 2.1, using historical data, shows trends in education, skills and access to health, highlighting ongoing challenges that required policy attention even before the pandemic. Section 2.2 provides a set of priorities for policy interventions for broadening the human capital framework to encompass safety nets, education and training, and health to support economic growth revival in the short term (1-2 years), while making sure that no one is left behind. Section 2.3 offers policies recommendation for the longer run (3-5 years) to ensure that a reskilling revolution takes place, that health systems are reformed and that labour laws and safety nets deliver widespread, inclusive prosperity in the future.

2.1 What were the human capital-related priorities emerging from the past decade?

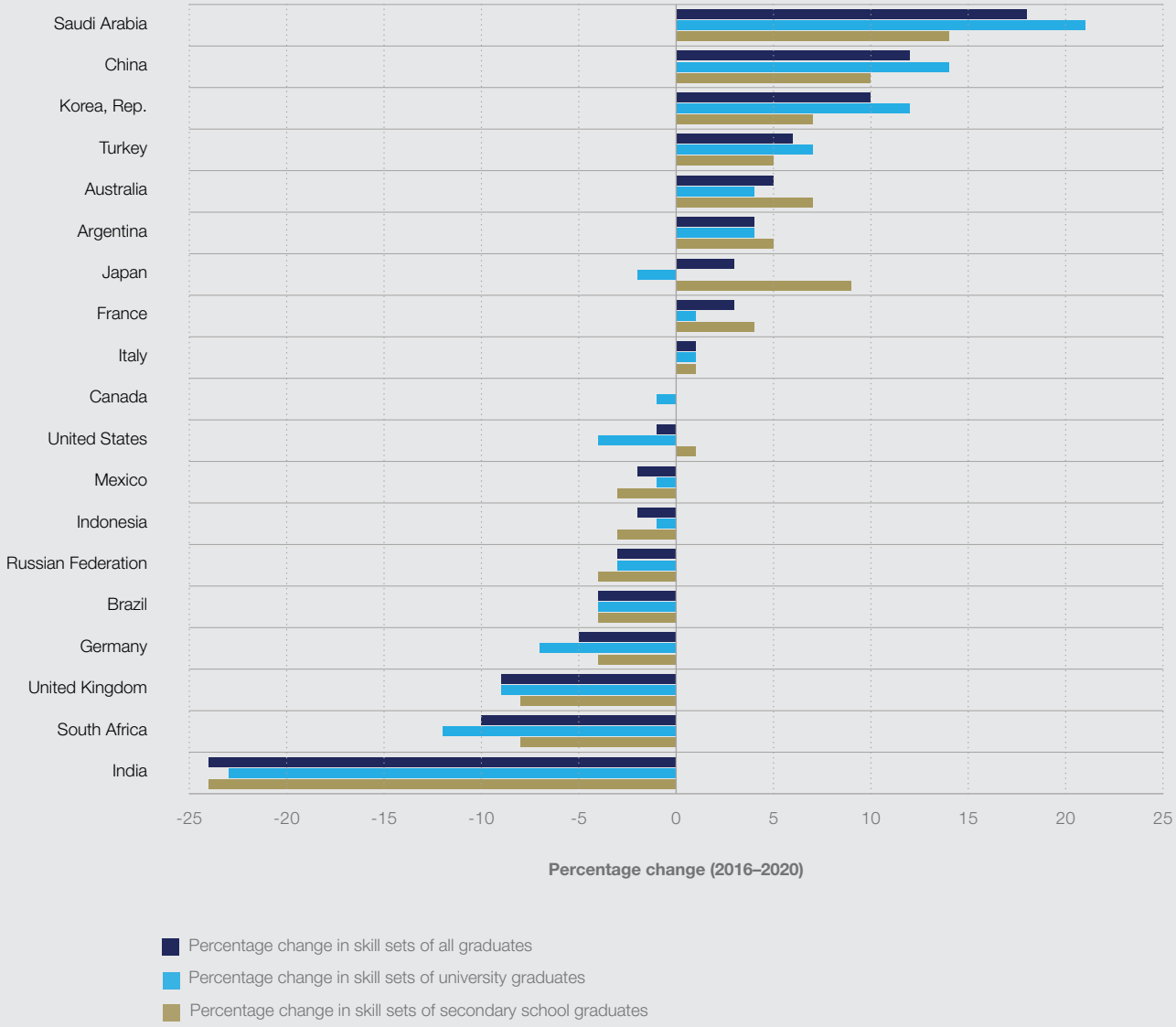
Talent shortages have become more pronounced, underpinned by outdated education systems.

Over the past decade, human capital development across advanced economies has stagnated, although a number of developing economies have made investments in basic upgrading of education and training systems. Across developed and developing economies, talent gaps remain large, local education systems are increasingly outdated and there are limits to international mobility. For example, relative to 2008, the ability to import talent has dropped by 17% percent in advanced economies and 12% in emerging economies.

The adequacy of local secondary education systems to meet the needs of employment is rated at 59 points (out of 100) in advanced economies and 42 points (out of 100) in emerging and developing economies. A number of large economies have seen downward trends in adequacy of skill sets of all graduates in recent years (among them, India, South Africa, United States and Germany) while others such as Korea, Rep, Saudi Arabia, Turkey and China have improved their scoring (Figure 2.1).

FIGURE 2.1

Percentage change in the skill sets of graduates, 2016–2020, G20 economies, disaggregated by level of education



Source

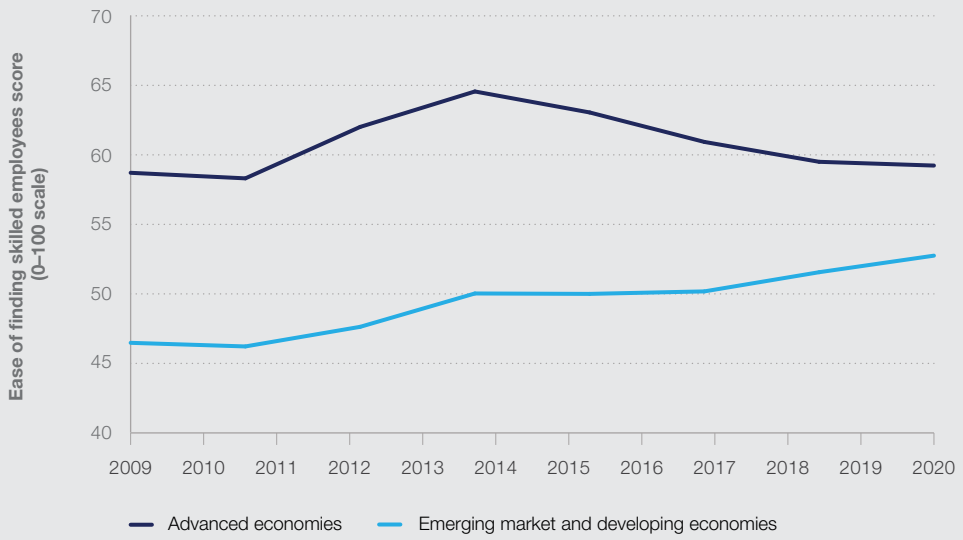
World Economic Forum, Executive Opinion Survey, 2016-2020 editions.

Similarly, the adequacy of tertiary education to meet the needs of employment is rated at 68 points (out of 100) in advanced economies and 55 points (out of 100) in emerging and developing economies. In the aggregate, these figures have seen little change over the past years. The tertiary education systems that are rated as best placed to deliver to the needs of employers are those of Switzerland (82), Singapore (79), Finland (79) and Chile (71). In contrast the following countries trail behind: Ethiopia (37), India (39), Brazil (45), Japan (59), Italy (62), and United Kingdom (63). Tanzania and China are among the best improved, while India, Ethiopia and the United States have seen the largest decline.

As a result, the ability to find skilled employees has declined across advanced economies by 7% relative to 2016, while improving across developing economies by 3%. As presented in Figure 2.2, business leaders across geographies continue to report difficulties when searching for individuals who can fill vacancies in their enterprises and over time the trends in emerging and developing economies have converged to a similarly low base.

FIGURE 2.2

Trends in ease of finding skilled employees in advanced economies and in emerging markets and developing economies, 2009–2020



Source

World Economic Forum, Executive Opinion Survey (various editions). See Appendix B for details.

Note

Values of emerging market and developing economies are based on a constant sample of 84 economies; values of advanced economies are based on a constant sample of 36 economies covered in every edition since 2009. The Ease of finding skilled employees indicator (1–100 scale) corresponds to the response to the survey question "In your country, to what extent can companies find people with the skills required to fill their vacancies?" [0 = not at all; 100 = to a great extent].

There is a particular shortfall in digital skills and other skills of the new economy as technology disrupts labour markets.

As new technologies are adopted by enterprises globally, skills shortages in digital skills and the skills needed for the jobs of tomorrow are set to become more pronounced as populations have switched to remote work during the COVID-19 pandemic.

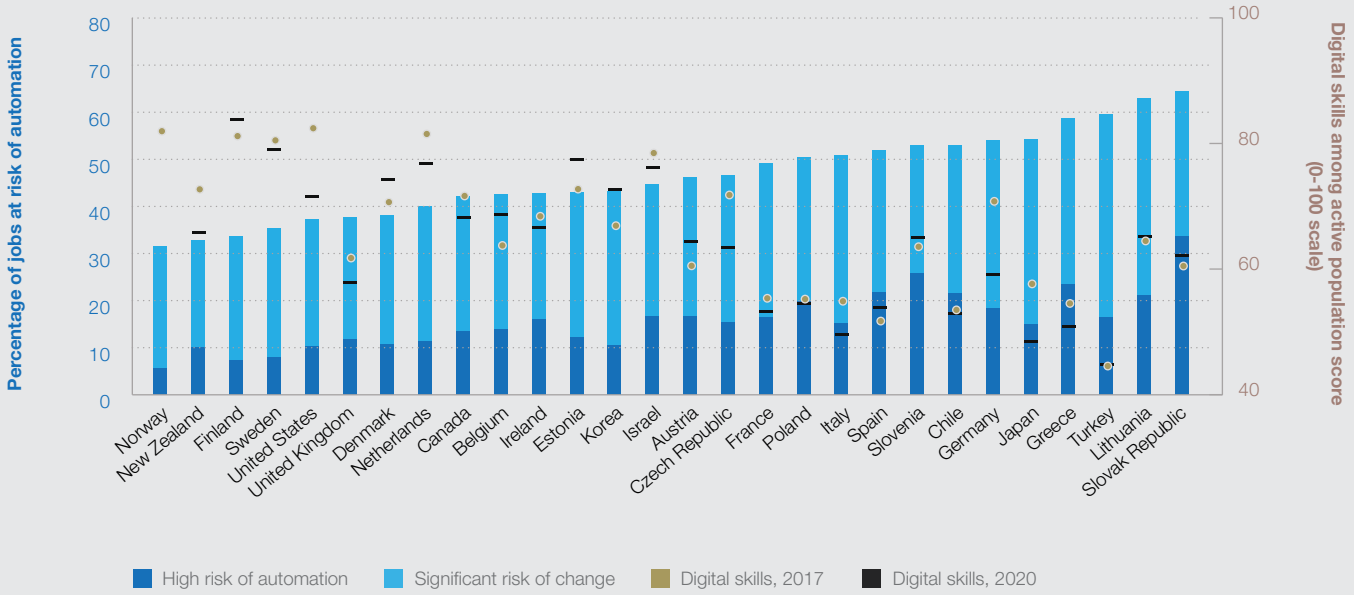
The World Economic Forum's *Future of Jobs Report 2020* has projected that technological change is set to displace a range of skills in the labour market while driving greater demand for a new set of core skills such as analytical thinking, creativity and critical thinking as well as skills in the use and design of technologies ("digital skills"). While such changes are still likely to result in a net positive employment outlook in the midterm, there is significant additional disruption and stagnation in the labour market due to the COVID-19 recession.[21]

Since 2017 (when data was first available for this indicator) the perception of businesses on digital skills have, on average, decreased by 3.4% among advanced economies and increased by 1.8% among emerging and developing economies, while developing and emerging economies score 49 (out of 100) and advanced economies score 67 (out of 100). The largest improvements have been in Egypt, Bulgaria, Saudi Arabia and Tanzania while the United States, Norway, South Africa, Germany and Japan have seen the largest decline of digital skills relevance.

The lack of adequate digital skills not only hampers the diffusion of ICT but also exacerbates the risk of job losses related to automation. As shown in Figure 2.3, in OECD countries, at least 14% of all jobs are at "high risk" of automation and 32% of all jobs are at "significant risk" of automation. In 16 of 27 OCED countries digital skills scores have declined over the past four years, making it more difficult for workers to transition to new roles.

FIGURE 2.3

Digital skills among active population and % of jobs at risk of automation, selected economies



Source

Author calculations based on World Economic Forum, Executive Opinion Survey (various editions). See Appendix B for details; and OECD, Putting faces on the jobs at risk of automation, Policy Brief on the Future of Work, 2018.

Note

The Digital skills among active population indicator (0-100 scale) corresponds to the response to the survey question "In your country, to what extent does the active population possess sufficient digital skills (e.g. computer skills, basic coding, digital reading)?" [0 = not all; 100 = to a great extent]. The extent to which a job is considered at risk of automation is based on the percentage of tasks within an occupation that can be automated. A job is considered as being at a "high risk of automation" if 70% of tasks required to do this job can be automated. A job is considered as being at a "significant risk of change" if 50 to 70% of the task required to do this job can automated.

There are misaligned incentives and rewards for workers.

Among developed economies, pay is increasingly de-coupled from the overall productivity of workers, driven in part by high rates of technological adoption, yet resulting overall in an increasing polarization of wages between workers employed in different professions. In addition, as tracked by the Executive Opinion Survey over the past decade, there has been a gradual erosion of meritocracy in labour markets across economies, a decline in the assessment of professional management and lower evaluations of the ability of firms to promote and develop diverse talent. For instance, business leaders reviewed meritocracy assessment downward by 3% on average, 12% in the United States, 14% in Sweden and 23% in Brazil.

A key emerging priority of the last decade has been the reallocation of the current workforce into emerging professions in tandem with relevant reskilling and upskilling. In this context, the persistent erosion of meritocracy, as well as the new challenges posed by the COVID-19 pandemic, call for governments to support both businesses and workers in the transition to the new world of work and improve quality, wages and standards of work in the new economy.

Health services, infrastructure and talent have lagged behind two dominant demographic trends, increasing population in the developed world and ageing populations in the developing world.

Average life expectancy has jumped by four years since 2010, and by nine years since 1990. The most significant progresses have been achieved in low- and middle- income (developing) economies. In these countries, life expectancy has increased by 5.62 years since the start of this century.

This progress is largely due to improved sanitation across developing economies as well as, more broadly, to the emergence of new medical technologies. Such positive figures mask persistent under-investment in health system capacity which has become more apparent during the COVID-19 pandemic.

The gap between the demand and supply of health personnel remains large. According to World Health Organization estimates, healthcare services in high-income economies are set to experience a shortfall of 78,000 professionals by 2030. In developing and emerging economies, despite a 15% increase in the average number of physicians per capita between 2000 and 2017, there is still a shortage of doctors to meet a rapidly growing demand.[22]

2.2 What are the priorities for human capital development in the short-term revival of economies?

Manage a gradual transition from furlough schemes to new labour market opportunities.

Holistic labour market policies will be needed to support the transition of the cohort of individuals whose employment has been supported by government-funded furlough schemes or through other emergency support measures. In the coming year these schemes will have to give way to other, less temporary policy measures.

With a significant rise in unemployment in the COVID-19 context and risk of further expansion of those figures, the labour market will benefit form a new cohort of policies which support workers' income and health needs in the short term, but also power their re-allocation to new jobs and professions in the short- to medium-term.

Job creation measures such as funding small and medium-sized enterprises and new entrepreneurial clusters, as well as creating a cohort of new, quality-focused apprenticeships collectively focused on the professions of the future, could further ease the transition to the new labour market.

Individual efforts to undertake an investment in mid-career reskilling and upskilling can be motivated by government programmes but also by employers' commitments to training, fair wage practices and merit-based management practices. These behaviours by firms can signal to workers who are exploring both short-cycle and fundamental training that their efforts will not be wasted, and they will be rewarded on the basis of investments they make in their human capital.

Scale up reskilling and upskilling in emerging skills, combined with active labour market policies.

A revival in the development of human capital and the functioning of labour markets across economies requires focused efforts to renew training systems across various age and experience cohorts, with an emphasis on the skills needed for emerging jobs. This update is urgently needed in secondary education to ensure that future generations of young people enter the labour market with job-ready skills. However, talent shortages will remain endemic until there is substantial escalation in mid-career re-skilling and upskilling programmes as many of the individuals who need further reskilling and upskilling are beyond school age and current members of the workforce.

Specific policy efforts will need to target reskilling and upskilling for those who are at greatest risk of job displacement or are currently displaced. For example, unemployment services aimed at those out of work can encompass both income support schemes to maintain living standards during times of hardship and access to relevant retraining opportunities mapped to emerging jobs and skill sets to empower future labour market re-allocation. For example, in the past year, the Danish Ministry of Employment provided furloughed workers with an increase on typical unemployment benefits under the condition that they pursue upskilling and reskilling. Other governments, in Singapore and France for example, have provided workers with funded skills accounts for completing additional training. New technologies can support this process, mapping career trajectories and identifying personalized training opportunities with unprecedented granularity.

Expand health system capacity to manage the dual burden of current pandemic and future healthcare needs.

The events of the past year have further revealed that health systems remain under-funded and under-staffed. In the short to medium term, investments will need to be focused on expanding personnel and capacity to manage the potential of COVID-19 resurgence as well as to deploy a future vaccine. In parallel, countries have already started to, and should continue to adapt their prevention strategies, improving public health messaging, developing greater expertise, implementing new monitoring mechanisms and supporting the safe development of telemedicine.[23] These adjustments, together with stronger international collaboration and communications, will contribute to lay the groundwork for greater resilience in the future. In addition, developing economies will need support in funding and deploying their COVID-19 vaccine response as well as strengthening the resilience of their healthcare systems. Weak links in the management of chronic and infectious diseases wreak havoc on local economies and hold global economic consequences as revealed by the COVID-19 pandemic.

2.3 What are the priorities for empowering human capital to drive the long-term transformation of economies?

Beyond the immediate-term revival of human capital in the new economy, the following priorities cover the next steps required to drive a wholesale transformation across economic systems.

Update education curricula and expand investment in the skills needed for jobs in markets of tomorrow.

With a medium-term time horizon, it is possible to map and define the skills needed to drive the markets of tomorrow, to develop new and cutting-edge knowledge, and to engage in the production of frontier technologies. To create such a transformation towards the jobs of tomorrow, economies must fundamentally upgrade technical and vocational training and university education for both students and workers on an ongoing basis. Policy-makers must also innovate and refresh how school curricula teach the core skills that must be seeded for innovation capability later in life through creativity and critical thinking skills.[24] In addition, to drive better economies and societies, education and training systems will need to be updated not only to prepare children and adults for future employment but will also need to prepare them to be socially just citizens. New technologies could unlock the ability to scale access to education and to update curricula with greater cadence.

Rethink labour laws for the new economy and use new talent management technologies to adapt to the new needs of the workforce.

With the rapid expansion of digitalization and the adoption of new technologies in all sectors, labour regulation will need to adapt to new forms of work as well as new labour market signals. New formats of work, such as work on online work platforms, calls for new forms of regulation and work standards in the digital economy.

Across the digital platform economy as well as the traditional economy, recent trends have seen a polarization of wages, the disconnect of pay and productivity, as well as erosion of wages to levels where they are unable to guarantee a basic living standard in a number of key economies. These trends suggest a need to examine appropriate minimum and living wage policies that can ensure that workers are able to profit on the basis of their skills and set the basis for a labour market that benefits people and society as well as firms and the economy. Those same aims demand the introduction of further regulation over time that can ensure that adults have the leisure time to maintain civic and familial ties, as well as subjective well-being.

New tools and technologies can support adaptation of the workforce and offer solutions to employers and the public sector. For example, such tools, if managed well, can help reduce the time needed to claim benefits and taxes, or to monitor diversity and inclusion challenges. Such new tools can also be employed to ease the burden of government reporting, allowing public sector oversight, which requires lower levels of private-sector burden.

Expand eldercare, childcare and healthcare infrastructure and innovation for the benefit of people and the economy.

Broad public investments in healthcare and the childcare and eldercare infrastructures can support a future more inclusive economic transformation while offering numerous societal benefits. For example, increasing investment in health can achieve the dual goal of strengthening the capacity of health systems, already insufficient before the pandemic, but also offer an additional area of increasing employment, especially in newly revalued ‘essential’ work. These investments can create preparedness for new health emergencies and promote greater inclusion by broadening access to healthcare, especially among under-served populations.

Such investments are also critical for expanding the care economy for both young people and the elderly. The scale of government investment in this sector has the potential to have significant additional dividends while greatly benefiting societies and individuals; in particular, women, who currently perform most unpaid care work.[25]

The use of technology can support efforts to scale health and care, and innovation in associated business models, opening the possibility for higher-wage, higher-quality work for health and care industry professionals. For example, new technologies could support eldercare workers to prolong time spent in the home rather than in a care home and to provide early alert systems for worsening conditions. New technologies can also further support the expansion of broader healthcare through new monitoring and tracking tools.

Section 3
Markets

3

Markets

Markets are the building blocks of a functioning economy. Competitive markets often produce goods and services satisfying a large variety of human needs that are offered at the best possible prices. There are, however, cases when markets fail to produce the best outcomes, particularly when there is concentrated market power, incomplete information, or externalities. For instance, the 2008 global financial crisis showed that markets are inefficient when an entity has an incentive to increase its exposure to risk because it does not bear the full costs of that risk. In such cases, regulations or public interventions are required to prevent or correct these failures.

Over the past decades, not only has efficiency eroded as new sources of market power and externalities arose, but the inability of markets by themselves to contribute towards sustainability and inclusion objectives has also become increasingly evident. The 2020 pandemic exacerbated some of these trends. This section examines the evolution of product markets, financial markets and international trade as well as the role of new industrial policies in providing a new direction for market outcomes. Section 3.1 uses historical data to show trends in these dimensions, pointing out issues that already required policy attention before the pandemic. Section 3.2 provides a set of priorities for policy interventions to strengthen financial systems, competition and support to the private sector to revive growth (1-2 years) while embedding sustainable and inclusive prosperity principles. Section 3.3 offers policy recommendations for the longer run (3-5 years) that hardwire positive social and environmental outcomes into the functioning of the markets of tomorrow.

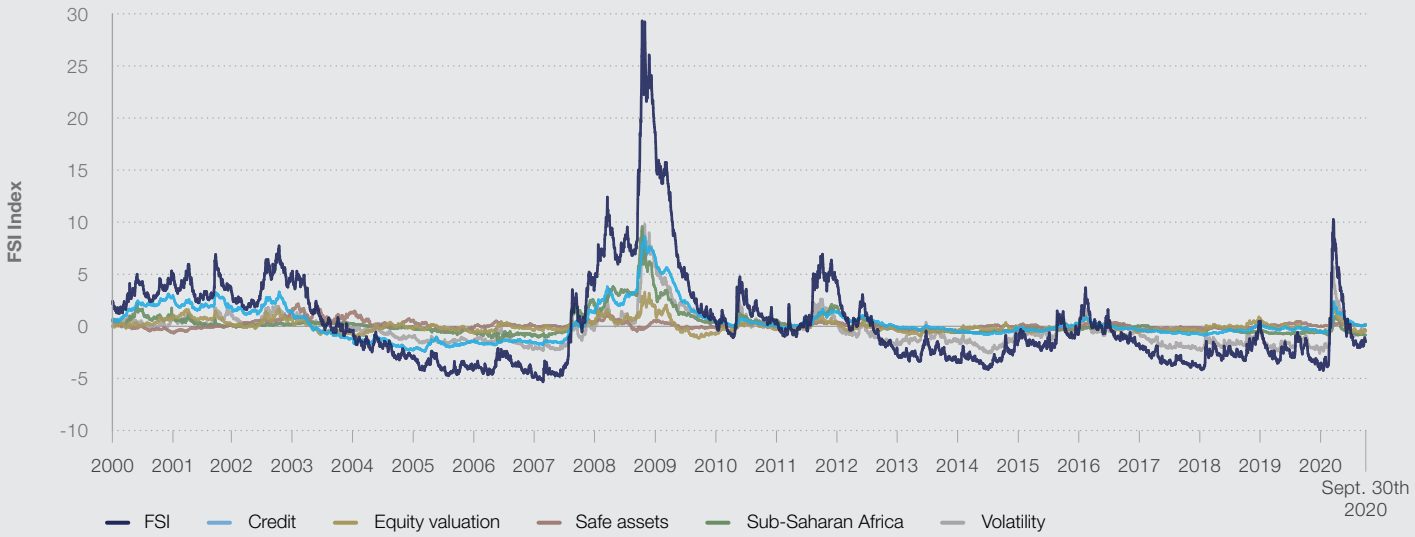
3.1 What were the markets-related priorities emerging from the past decade?

Financial systems after the 2007–2008 crisis have become sounder but continue to have some sources of fragility, including increased corporate debt risks and liquidity mismatches, and are not sufficiently inclusive.

The 2008-2009 financial crisis have led policy-makers to introduce new regulations and macro-prudential policies. Thanks to these interventions, financial systems strengthened worldwide (Figure 3.1). By pushing banks to deleverage, increase capitalization and reduce non-performing loans, banks have emerged from the financial crisis stronger, and were overall sounder in 2019 than they were in the past 12 years. (Table 3.1, Column A).[26]

During the same timeframe, banks, supported by accommodative monetary policy, eased credit conditions, granting better access to capital to both large firms and SMEs. For instance, in the United States and large Eurozone countries, an increasing number of loan managers reported having eased standards for granting business loans between 2008 and 2018. By the same token, business leaders answering the World Economic Forum's Executive Opinion Survey have reported an improvement in access to credit for SMEs in their countries over the past five years (Table 3.1, Column B).

FIGURE 3.1 **Evolution of global financial stress, March 2000 – September 2020**



Source

Office of Financial Research, OFR Financial Stress Index.

Note

The OFR Financial Stress Index (FSI) is a daily, market-based snapshot of stress in global financial markets. It is constructed from 33 financial market variables, such as yield spreads, valuation measures and interest rates. The OFR FSI is positive when stress levels are above average, and negative when stress levels are below average. The value of the OFR FSI on a given day is the weighted average level of each variable observed in the market on that day, relative to its history.

Loose monetary policy and easier access to credit has benefitted the economy on the one hand but introduced new issues on the other. First, low rates have reduced monitoring incentives and lending standards. As a result, corporate debt has risen over the past few years, which may become challenging with the emergence of the COVID-19 crisis. According to the IMF, at-risk corporate debt in 2019 was already high in systemically important countries, including the United States, United Kingdom and China. Although banks have learned to resolve bad loans faster, and most banks remain well capitalized, during the COVID-19 crisis several banks will "approach minimum capital levels".[27] A second issue driven by extra-loose monetary policy is stock market volatility and misalignment between market prices and fundamentals. Prices lose their signalling role and create incentives for diverting funds from investments (e.g. R&D, human capital, new facilities, pollution abatement) towards short-run profits, such as large-scale open-market repurchases.[28]

Furthermore, millions of households are still excluded from financial services and credit. For instance, according to the IMF's Financial Access Survey, in most Sub-Saharan African countries there are less than four bank branches per 100,000 people, while in most European and North American countries there are between 20 and 50.[29] Even within advanced economies some communities are significantly excluded from financial services: for instance, in the United States, almost half of black American households are un-banked or under-banked, versus about 20% of white American households.[30]

TABLE 3.1 | **Banking system indicators, selected countries**

	Column A: Stability indicators				Column B: Access indicators	
	Non-performing loans, (level 2018)	Non-performing loans, (difference 2012-2018)	Soundeness of banks (index, 2019 score relative to 2008)	Change in Bank Capital to Asset Ratio, (difference 2008-2019)	Loans stricteness, (difference Q4 2008-Q4 2018)	Financing of SMEs, % change (index, 2019 score relative to 2015)
Australia	0.9%	-0.85%	91.8	1.18	-	98.1
Canada	0.4%	-0.20%	88.9	1.52	-	119.6
China	1.8%	0.88%	114.4	9.31	-	123.6
France	2.7%	-1.55%	92.7	6.61	-77.28	112.1
Germany	1.2%	-1.62%	91.3	2.04	-36.46	106.7
India	9.5%	6.09%	77.8	8.11	-	99.4
Indonesia	2.3%	0.52%	95.7	6.43	-	108.1
Italy	8.4%	-5.36%	80.4	2.12	-97.50	123.4
Japan	1.1%	-1.20%	109.7	-	-	111.5
Korea, Rep.	0.3%	-0.24%	100.7	1.66	-	116.3
Mexico	2.1%	-0.39%	98.4	1.40	-	102.0
South Africa	3.7%	-0.31%	96.0	8.51	-	85.8
United Kingdom	1.1%	-2.51%	97.3	2.40	-	114.6
United States	0.9%	-2.40%	102.9	11.78	-77.60	104.9

Source

World Economic Forum Executive Opinion Survey, World Bank World Development Indicators database, IMF, financial soundness indicators, European Central Bank's Bank Lending Survey (BLS) and U.S. Federal Reserve Board's quarterly Senior Loan Officer Opinion Survey.

Note

The Non-performing loans indicator is the ratio of the value of non-performing loans divided by the total value of the loan portfolio of all banks operating in a country. The Soundness of banks indicator corresponds to responses to the question "In your country, how do you assess the soundness of banks?" [1 = extremely low—banks may require recapitalization; 7 = extremely high—banks are generally healthy with sound balance sheets]". The Bank capital to asset ratio is obtained by dividing banks' assets by total capital. The Loans strictness indicator is the percentage of bank managers reporting of having tightened standards for loans. The Financing of SME indicator corresponds to responses to the question "In your country, to what extent can small- and medium-sized enterprises (SMEs) access finance they need for their business operations through the financial sector?" [1 = not at all; 7 = to a great extent].

Market concentration has been on an increasing trend in advanced economies, with large productivity and profitability gaps between the top companies and all others in each sector.

Business leaders in advanced economies assess that, on average, the extent of market dominance has increased significantly since 2008. In developing and emerging economies, market dominance has increased less, but has remained persistently higher than in advanced economies. (Figure 3.2). These trends date back several decades. For instance, there is evidence that US market power started to increase in the 1980s, as mark-ups rose by 40 percentage points (reaching 61%), and profit rates increased from 1% of sales to 8% between 1980 and 2014, driven primarily by reallocation towards already high-mark up firms.[31]

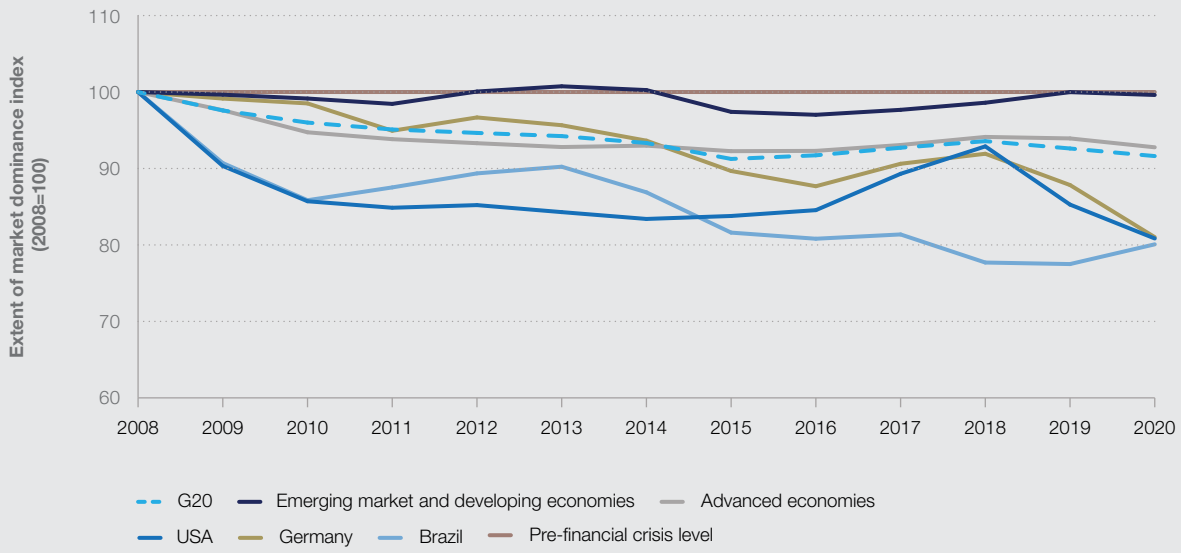
In this context, the outbreak of the COVID-19 pandemic is likely to exacerbate concentration as it may force smaller and fragile companies to exit the market or lose market share in some sectors and reinforce 'winner-take-all' outcomes in other sectors, reducing space for innovation and new entrants as well as potentially reducing consumers' benefit.

Innovation has also become concentrated. Only a handful of countries generate the bulk of new inventions, supported by a few smaller or regional innovators. Most other countries produce only marginal innovations or local adaptation of existing technologies. Over the past 20 years, large cross-country innovation divides have not diminished. Just five countries today produce together over 70% of global patent activity, and the top 10 countries generate over 85% of global patent shares (Figure 3.3). These levels of concentration have remained in place for the past 20 years, with the exception of China and Korea (Figure 3.4).[32]

The geographic distribution of innovation, while it may be the result of typical cluster development and the benefits of agglomeration, also highlights large intra-country innovation divides. Thus, innovation activity takes place overwhelmingly in metropolitan areas, leaving rural areas behind.[33] This adds to the widening of the productivity divide between top companies and the rest—and leading to economies that are increasingly polarized and unequal.

FIGURE 3.2

Trends in extent of market dominance, selected economies and economic groups, 2008–2020



Source

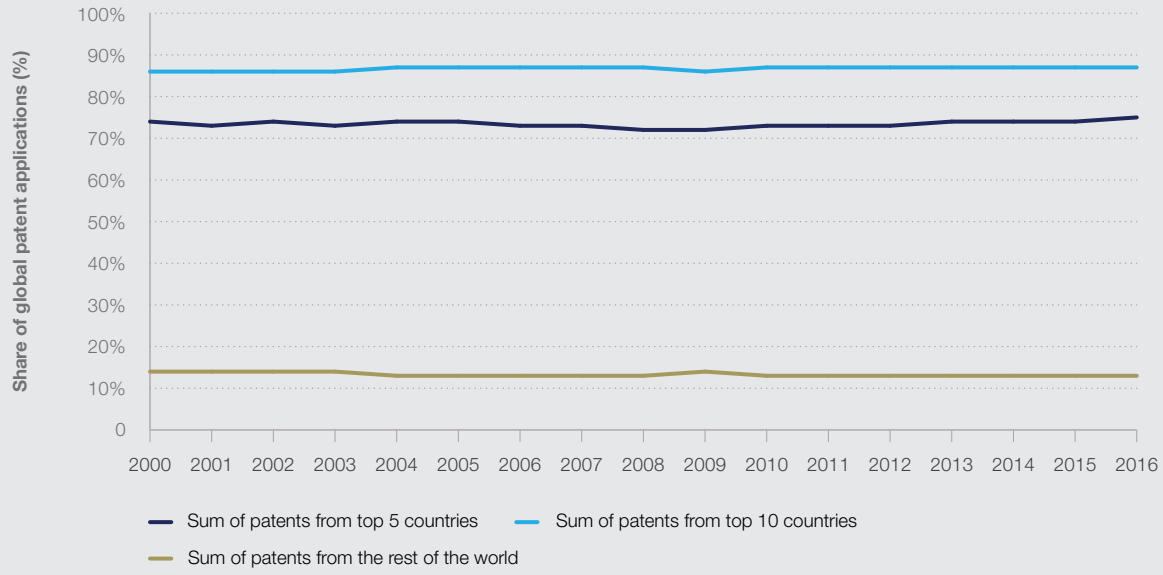
World Economic Forum Executive Opinion Survey 2008–2020 series.

Note

The Extent of market dominance indicator corresponds to responses to the survey question "In your country, how do you characterize corporate activity?" [1 = dominated by a few business groups; 7 = spread among many firms]. Advanced economies as well as emerging market and developing economies are defined according to International Monetary Fund *World Economic Outlook Database* classification.

FIGURE 3.3

Concentration in patent activity, 2000–2016



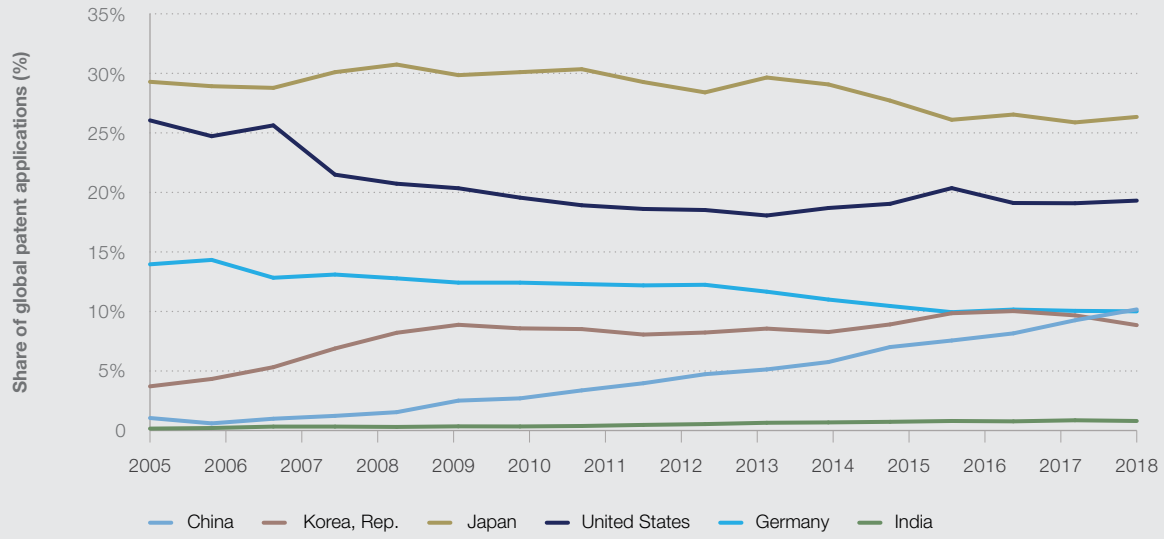
Source

Author calculations based on OECD/STI Micro-data Lab's intellectual property database.

Note

Patents are defined as the number of IP5 patent families, by earliest filing date and inventor country, using fractional counts. The top 5 economies are the economies with the highest number of patents in 2016: Japan; United States; China; Germany and Korea, Rep. The top 10 economies are the economies with the highest number of patents in 2016: Japan; United States; China; Germany; Korea, Rep., Taiwan, China; France; United Kingdom; Italy; and Canada.

FIGURE 3.4 **Trends in patent concentration, selected countries, 2005–2018**



Source

Author calculations based on OECD/STI Micro-data Lab, intellectual property database.

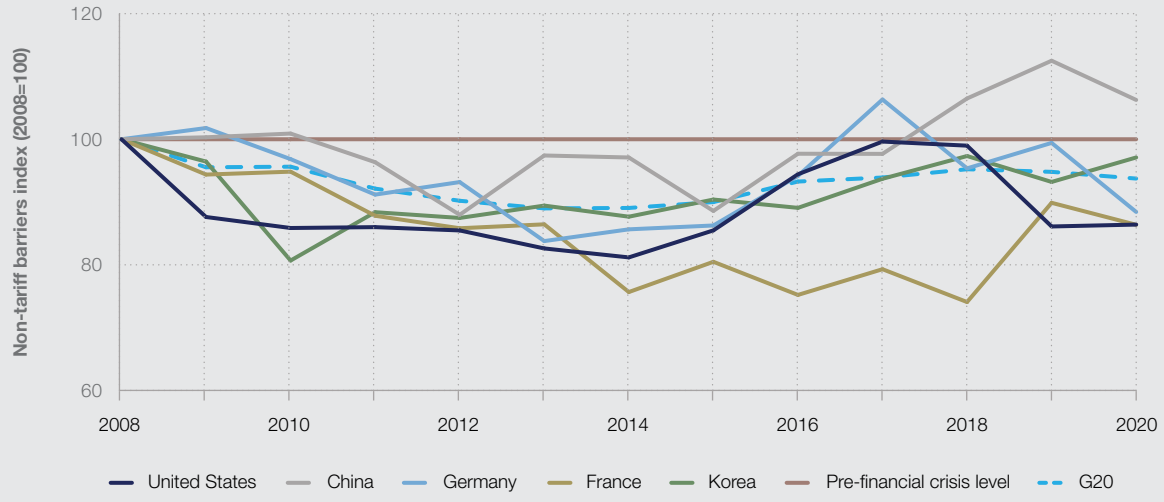
Note

Patents are defined as number of IP5 patent families, by earliest filing date and inventor country, using fractional counts.

Trade openness and the international movement of people have been on a declining trend since the financial crisis.

Countries responded to the 2009 global financial crisis by progressively increasing protectionism both in terms of trade and investments as well as on people movement. This tendency has crept in mainly through marginal adjustments to import practices—such as non-tariff barriers—and FDI rules, rather than through direct adjustment to tariffs rates. On average, business leaders in G20 countries evaluate that the prevalence of non-tariff barriers increased by 7.9% over 12 years ago (Figure 3.5) and that restrictiveness of FDI rules and regulations has increased by about 11.6% over the same period (Figure 3.6).

FIGURE 3.5 **Trends in prevalence of non-tariff barriers, 2008-2020, selected economies**



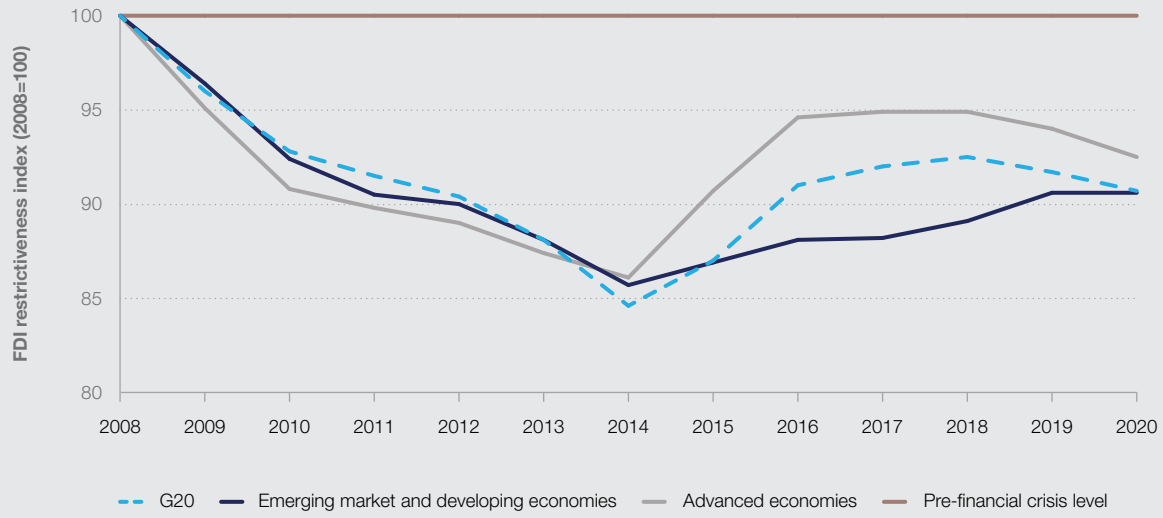
Source

World Economic Forum Executive Opinion Survey 2008–2020 series.

Note

The Prevalence of non-tariff barriers indicator corresponds to responses to the survey question "In your country, to what extent do non-tariff barriers (e.g. health and product standards, technical and labelling requirements, etc.) limit the ability of imported goods to compete in the domestic market?" [1 = strongly limit; 7 = do not limit at all].

FIGURE 3.6 **Trends in restrictiveness of FDI rules, 2008–2020**



Source

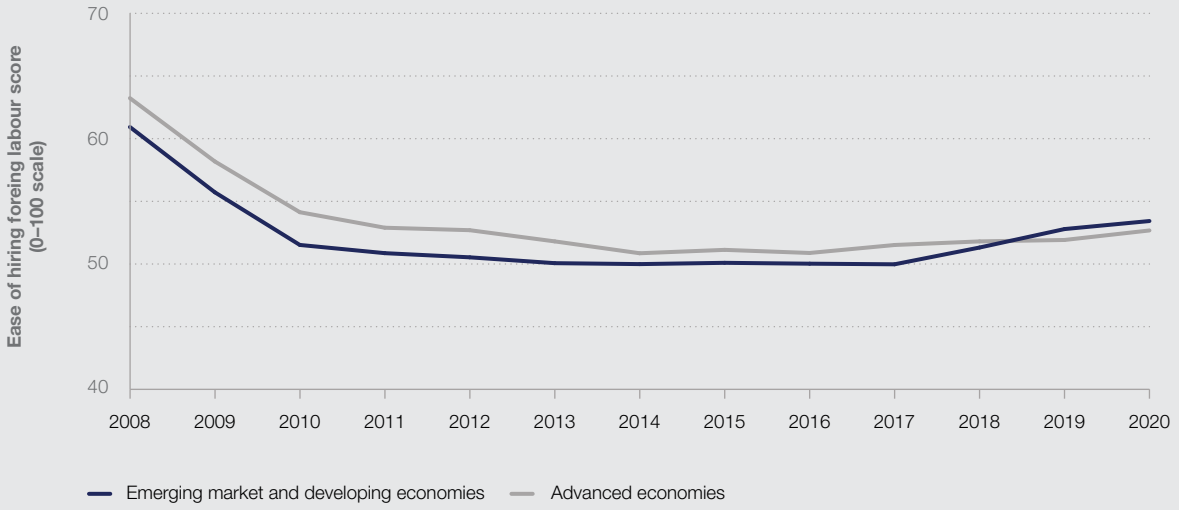
World Economic Forum Executive Opinion Survey 2008–2020 series.

Note

The Restrictiveness of FDI (Foreign Direct Investment) rules indicator corresponds to responses to the survey question "In your country, how restrictive are rules and regulations on foreign direct investment (FDI)?" [1=Extremely restrictive; 7=Not restrictive at all"]. Advanced economies as well as emerging market and developing economies are defined according to International Monetary Fund *World Economic Outlook Database* classification.

A similar trend is visible in terms of the ease of hiring foreign labour. Since the 2009 financial crisis, most countries have progressively tightened migration policies, limiting companies' access to the international pool of talent. As a result, business executives in advanced and emerging countries alike have reported that hiring foreign labour became significantly harder in 2009–2010 and has remained at lower levels since then (Figure 3.7). In about 30 countries out of the 141 covered by the GCR, hiring foreign labour has become significantly harder than it was in 2008–including in Austria, Switzerland, Denmark, Italy, Iceland, Singapore, the United Kingdom and Sweden (among advanced economies), and India, South Africa, Botswana, Colombia and Peru (among emerging and developing economies).

FIGURE 3.7 **Trends in ease of hiring foreign labour, emerging market and developing economies vs advanced economies, 2008–2020**



Source

World Economic Forum Executive Opinion Survey 2008–2020 series.

Note

The Ease of hiring foreing labour indicator corresponds to responses to the survey question "In your country, how restrictive are regulations related to the hiring of foreign labour?" [1 = highly restrictive; 7 = not restrictive at all]. Advanced economies as well as emerging market and developing economies are defined according to International Monetary Fund *World Economic Outlook Database* classification.

The health crisis has further exacerbated the decline in international openness trends. Countries have restricted access to people even more during the pandemic, and the "prevalence of non-tariff barriers" indicator is one of the aspects that declined the most in G20 economies between 2019 and 2020, together with other indicators of international openness (e.g. rules on FDI, collaboration with other companies). As an example of the change in policy-makers' mindset, the shortage of personal protective equipment (PPE) triggered by the pandemic, has induced governments to issue temporary export bans and consider reshoring production deemed as strategic.[34]

Although most health-equipment export bans have already been partially removed and health-related restrictions in the movement of people are likely to be lifted as the health crisis is resolved, there is a risk that protectionist policies and mindsets will stick. For instance, policy-makers of different countries have announced support to re-shoring of industries within national borders, and over 30% of business leaders in several G20 economies expect value chains to be less globalized than today (Figure 3. 8).

FIGURE 3.8 **Business leaders' opinions on the future of value chains' globalization**

Source

World Economic Forum, Executive Opinion Survey 2020.

Note

Data refers to the response to the survey question: "In your country, over the next five years, how do you expect supply chains to evolve? 1-3=less globalized than today, 4=same as today, 5-7=more globalized than today". Note that this question is on the 2020 Executive Opinion Survey. The data is not part of the 2020 Global Competitiveness Index.

Taken together, recent and longer-run trends in trade and the movement of people point to a lower commitment to international collaboration. As signalled by episodes of disengagement from the international community (e.g. Brexit, withdrawal from international environmental agreements) the space for effective international agreement has shrunk. This will be particularly crucial at a time when political will is needed to find common solutions on a broad set of topics (e.g. environmental targets, international taxation, vaccinations). As noted in previous editions of the report, globalization and openness will remain important factors for global prosperity, but governments need to ensure better support to those who have been losing out to rapidly advancing globalization and technological change. In the new context, governments will also need to support those small and medium-size businesses that have lost out to the current shock of new restrictions and de-globalization.

3.2 What are the priorities for markets to become a driving force in economic revival?

To respond to the long-standing challenges and as well as the new ones caused by the health crisis, the following priorities have been identified to revive the economy over the next 1-2 years, beyond immediate crisis management.

Ensure stable financial markets, a sound financial system and expand access and inclusion.

Significant actions have already been taken to respond to the financial risks generated by the COVID-19 crisis, including support via guarantees to banks on loans and relaxation of some regulations to allow for flexible use of capital and reserves. However, governments must also look beyond the current crisis to guarantee financial stability, preventing losses and fragilities in the corporate sector from weakening the financial system, and expanding its access.[35]

As COVID-19-related credit support may increase corporate and household indebtedness in the medium term, financing difficulties may arise when moratoria on debt repayments are lifted. Continuing loan guarantees and a gradual phase-out of direct support to firms, accompanied by continued monetary accommodation, should help to avoid mass insolvencies and private debt defaults. In addition, a strong framework for private debt restructuring to resolve nonviable firms should be established, including guidance on how banks should treat restructured loans and moratoria on loan repayments. Further, to prevent future credit crunches, banks should be allowed to continue using flexibility in regulatory frameworks and prudent accounting standards for loan classification and provisioning.[36] Beyond the immediate emergency period, policy-makers should prioritize solvency support for strategic or systemic firms, gradually tightening eligibility criteria for direct support to companies, and find innovative solutions to offer grants to SMEs in countries where small companies represent a large share of employment.[37]

A second policy element to strengthen financial stability is to set up regulations and prudential supervision of the non-bank financial sector, as well as to balance consolidation of weak banks with the growing competition from emerging financial players (shadow banks, FinTech and the entry of BigTech into financial markets). Regulation will need to allow innovation while ensuring financial stability in these new domains of the financial industry to prevent the build-up of systemic fragilities. For developing economies, in addition to monetary and macroprudential policies, policy-makers may also need to manage foreign exchange and capital flows, and vastly expand access and inclusion for their populations.

Balance support for firms to prevent excessive industry consolidation and further concentration with sufficient flexibility to avoid keeping 'zombie-firms' in the system.

As a first response to the COVID-19 crisis, governments have provided swift and strong direct and indirect support to the private sector (e.g. tax deferrals, guarantee loans, recapitalizations, subsidies). These measures have not only been effective in avoiding massive foreclosures and in supporting livelihoods; they have also prevented excessive consolidation and further increase in market concentration in multiple sectors.

In the next phase of the recovery, however, it will be important to consider firms' fragility jointly with excessive and unconditional support that may lead to resource misallocation, keeping 'unviable firms' alive and preventing market competition and limiting industrial renewal. To strike a balance between support on the one hand and competition and innovation on the other, public support to companies should be phased out gradually in line with the evolution of the pandemic, targeting primarily solvent yet illiquid firms, by industry. This is a difficult distinction to make. However, firms should be increasingly required to demonstrate the extent of the COVID-19 negative impact, their financing needs, as well as be assessed against historic financial performance (operating profits, previous borrowing history, etc.) in order to be eligible for different support instruments.[38]

Such approaches can help ensure that resources reach primarily firms and industries that required for the future and those that have suffered in the crisis but have long-term viability. Conversely, support should be less generous toward sectors or activities which create externalities, are declining, or not required for the future. In these sectors, policy-makers should instead provide planning and support for redeploying talent and assets elsewhere.

Create financial incentives for companies to engage in sustainable and inclusive practices and investments.

Emergency support to the private sector during COVID-19 has helped sustain some employment in the short term, but also offers an opportunity to nudge future business strategies towards more inclusive products and services, low-carbon investments or new emerging sectors or markets. Conditional lending and subsidies have been used in some countries during the COVID-19 crisis and can be extended to direct companies towards socially desirable behaviours (e.g. addressing tax avoidance, committing to future investments in energy-efficiency, providing personnel training).

As emergency public support to companies phases out, other instruments should be designed to incentivize investment in the low-carbon economy, new pioneering technologies or socially valuable markets (e.g. care economy), using a mix of subsidies or tax breaks on the one hand, while introducing new taxes (e.g. emissions) that can increase government revenues while correcting externalities.

Lay the foundations for better balancing the international movement of goods and people with local prosperity and strategic local resilience in supply chains.

With the outbreak of the pandemic, long-standing opposition to globalization and a stricter stance on migration has converted into nationalistic industrial policy announcements that aim to attract or re-shore production within national borders to create employment, and at the same time have a more direct control of supply chains. To some extent, partial re-organization of global value chains that proved to be too fragile during the crisis is desirable. It may not only improve resilience but also open up opportunities to countries currently not well integrated into global trade.

However, some caution is needed when it comes to the expected outcomes of re-shoring policies. First, companies tend to replace a supplier from a location with a new one in a different location rather than expanding their network. Hence, resilience may not necessarily improve. Second, sudden re-shoring may disrupt supply chains in the short run and may lead to less employment opportunities than expected when combined with a higher degree of automation. Third, these policies may not necessarily secure the supply of critical pharmaceutical or medical products as supply is better guaranteed by international networks than by a single country's domestic production.

To lay the groundwork for fairer trade that achieves local prosperity, international collaboration is essential along with local support. In the near term, the international community should remove remaining trade restrictions on essential medical supplies, share more information globally on the pandemic, and channel funding for vaccine production and distribution at an affordable price for all countries. In parallel, more dialogue is needed on travel and migration, new trade policies and managing climate change to prepare for reforming international governance in the longer run.

3.3 What are the priorities for turning markets into proactive levers for achieving the transformation of the economy?

As part of their efforts to shape goods, services and financial markets that not only achieve shared prosperity, respective of planetary boundaries, the following policies are recommended for countries to start their economic transformations post-pandemic.

Increase incentives to direct financial resources towards long-term investments, strengthen stability and expand inclusion.

While in the near future, the priority for financial markets will still be on contributing to minimize employment loss without excessive weakening of banks, in the longer run the financial sector will need to embark on a deeper restructuring. Banks will have to rebuild capital buffers, thinned during the COVID-19 crisis. In this phase, the regulatory flexibility allowed to give banks margins of manoeuvre will need to be removed and the implementation of the Basel III standards will have to resume, starting in 2023.[39]

A new regulatory framework will, however, need to encompass both banks and non-bank financial institutions, including further prudential supervision to contain excessive risk-taking in this segment of the industry and to avoid that a new source of systemic risk is introduced in the financial system. Further, as BigTech firms become new players in financial markets, the regulatory framework will have to include provisions on customers' data ownership and portability. Regulators will therefore have to balance prudential regulation and competition policy to avoid compliance becoming a barrier to entry for new players without allowing new entrants to be a source of instability.[40]

Moreover, to steer the financial system to channel funds towards productive, long-run investments, policy-makers should remove incentives that divert funds from these types of investments and instead incentivize financial support to environmental, social, and corporate governance (ESG)-compliant companies. For instance, corporations could be more proactively discouraged to engage in short-term return operations as open-market repurchases, as some countries have done in the short term.[41] When it comes to incentives towards investments in ESG, triple accounting and reporting, together with greater demand for green and inclusive investments by a new generation of consumers could lead banks to renew their product offerings. There is already some evidence that wealth managers are moving towards ESG-informed investing and that banks are creating sustainable exchange-traded funds (ETFs) as well as loans dedicated to home energy-efficiency improvement.[42]

Rethink competition and anti-trust frameworks needed in the Fourth Industrial Revolution, ensuring market access, both locally and internationally.

New and pre-COVID-19 competition issues need to be addressed for economies to deliver widespread prosperity in the long run. In terms of long-standing issues, policy-makers must take more action to resolve excessive market power, overall and in specific sectors. This includes reinforcing existing anti-trust authorities and implementing regulation that allows new players to enter the market. It also includes addressing 'winner-take-all' dynamics in some specific markets, such as those where digital platforms offer a position of dominance. New policies in this domain could include developing new metrics to: measure the impact of market concentration in the platform economy, move away from monitoring only market price increases to detect market dominance, scrutinize the practice of the acquisition of start-ups before they become serious competitors to incumbent leaders, and use technology to reduce barriers to entry, such as finding smart solutions to assign property rights to data.[43]

A potential new issue, triggered by the COVID-19 crisis, is the risk, not yet materialized, that stimulus packages—after having been a useful tool to prevent consolidation in the short term—can actually become a tool of market distortion in the long run. If countries convert emergency packages into permanent state aid that promotes 'national champions', competition and level playing fields will be compromised.[44] Recovery strategies should therefore make sure to increase support to companies gradually as the crisis resolves, possibly re-directing resources towards broader incentives for developing inclusive and green products and services.

Facilitate the creation of "markets of tomorrow", especially in areas that require public-private collaboration.

A new market is created via the interaction of i) norms and standards, ii) technological possibilities, and iii) demand. The World Economic Forum has identified 20 innovative "markets of tomorrow" as new, emergent niches with the potential of transforming economies from the bottom up, by taking advantage of new technologies and new norms to generate economic value while meeting the needs of society and the environment. These markets include, for instance, the market for EdTech and reskilling services, the market for data, and the market for care services.

Six conditions need to be in place for these markets to materialize: invention, production, demand, standards, codification and infrastructure.[45] Enabling these conditions can foster the creation of such new markets to meet societal needs in new ways. For instance, safety nets can be thought of as a market of tomorrow, where the need of employees will be to receive insurance in a context where cross-sector and cross-country mobility will be higher and unemployment episodes may be more frequent than today for a significant section of the workforce. New technologies, adequate norms and public-private collaborations can help offer new solutions to these new needs, creating a new market for safety net services.