

World Economic Forum Davos 2021 – Strategies to address “The Great Reset”

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- The World Economic Forum Davos 2021 summit took place on January 25-29, with the main topic “The Great Reset”
- This year’s event received more attention on its 51st edition taking into account the complex backdrop steered by the Coronavirus pandemic
- On this occasion the global symposium was conducted virtually, however a physical special edition will take place in Singapore on May 25-28, complementing the topics analyzed during the January edition
- This year's focus was influenced by the aftermath, structural change, and challenges associated with the COVID-19 health crisis. As expected, many of the strategies proposed for 2021 centered on facing the adverse effects of the pandemic in the health, economic, and social aspects

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A strategic view to overcome the adversity caused by the Coronavirus. Last week the emblematic meeting of the *World Economic Forum Davos 2021* took place. The central theme was “The Great Reset”. This time, the event was held virtually due to the Coronavirus pandemic, but a special annual edition has also been planned –an in-person summit complementing the topics analyzed in January–, in Singapore on May 25-28. As in previous editions, the speeches and debates had a forward-looking tone, trying to warn about the needs that must be addressed to face the future. However, as the central title of the event –The Great Reset– suggests, the focus was also influenced by the aftermath, structural change, and challenges associated with the COVID-19 health crisis. As expected, many of the strategies proposed for this 2021 are focused on facing the adverse effects of the pandemic in the health, economic and social aspects, dealing with many of the issues analyzed in the *WEF Global Risk Report 2021*, published right before the summit.

Global leaders discussed important paradigm shifts in the world. It is worth noting that this is an event that over the years has gained unprecedented relevance, since its foundation in 1971 by the renowned economist and engineer Klaus Schwab. And in its 51st anniversary, it has gained much more attention due to the complex global situation caused by the Coronavirus pandemic. The importance of the World Economic Forum lies in the quality of its attendees. A conclave of the main political and business leaders, great thinkers and celebrities of all kinds, allows a very high level of discussion around the most important issues that influence the entire humanity and the planet. Many of the strategies of firms and the design of public policies around the world for the current year, as well as in the medium and long terms, emerge from this forum. In the Davos 2021 edition, the topics focused on the way in which families, companies, and governments must follow a coordinated action to move towards a new post-pandemic equilibrium, and emerge from the adversity caused by SARS-CoV-2.

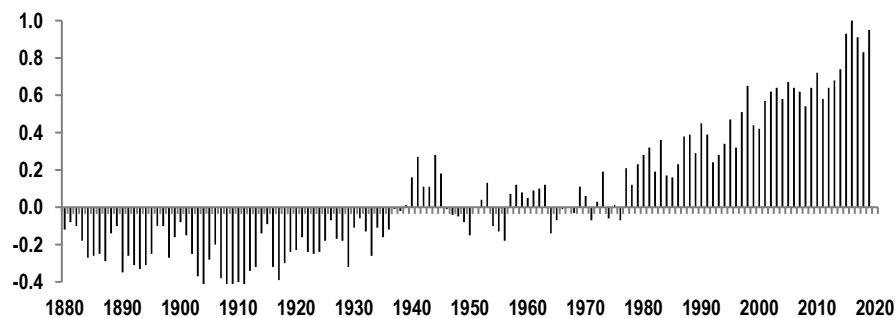
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Seven priority topics were discussed at the summit. The abovementioned leaders have recognized that there are still many challenges to face in several fronts. For example, a comprehensive strategy is required to assimilate the disruptive shocks caused by the technological advance of the *Fourth Industrial Revolution*. Likewise, we must incorporate important social and demographic changes into our decision processes and strategies, in such a way as to seek a symbiosis between inclusive growth and development, trying to reduce levels of inequality –which the pandemic will unfortunately increase– and reducing the gap of poverty. Similarly, there is a great challenge associated with climate change that still requires our full attention. All these questions were addressed in 7 specific topics throughout the Davos 2021 agenda:

(1) *How to save the planet.* The severe climate change that we have experienced since 1980 has increased concerns in public- and private-sector policies, as well as in consumption patterns in practically the entire world. Since that decade, the planet's average temperature has increased by less than one degree Celsius, causing devastating consequences, weather phenomena, and natural disasters with greater frequency and of stronger proportions (see chart below). Studies from the United Nations, or the Global Climate Report by NOAA –an agency dedicated to monitoring the environment within the US Department of Commerce–, show that each year it increases by about 0.2 degrees Celsius the average temperature on the planet, with a trend that has increased in the last 10 years. The projections for the next few years are even less encouraging. Global warming has caused the rate of thaw in the world to increase by 57% since the 1990s, having a significant impact on sea levels, as well as its configuration, just to give one example. This change in the climate paradigm has given greater impetus to ESG sustainability policies, focused on the environment, social issues and governance. The restriction of mobility and decrease in economic activity during 2020 due to the pandemic reflected the strong footprint left by our current lifestyle and the need to make significant changes. This will continue to be one of the most important topics that will continue to be addressed in the main international forums.

Increase in global average surface temperature

Degrees Celsius, deviation from its long-term average*



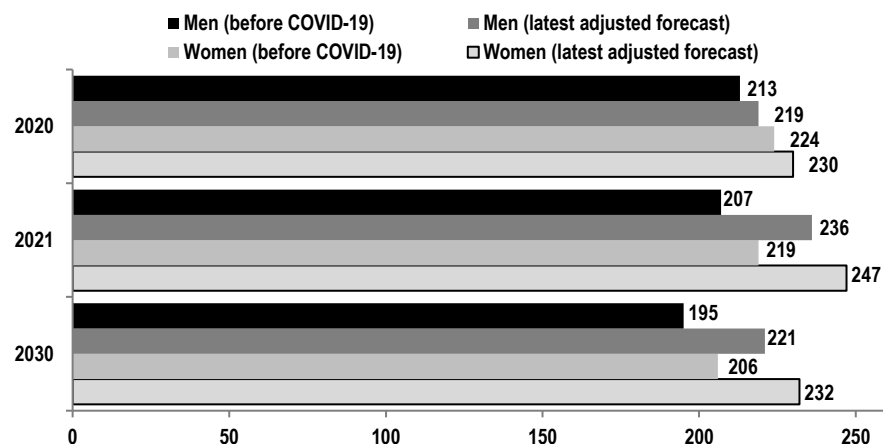
* Note: Long-term corresponds to the twentieth-century average (1901-2000)

Source: NOAA

(2) *Fairer economies.* Unfortunately, the current health crisis will lead to an increase in inequality and poverty levels. Many of the discussions focused on the urgency of carrying out strategies for sustained growth, had as a frame of reference the latest update of the *World Economic Outlook* document that the International Monetary Fund also published last week. In that forum, its chief economist, Gita Gopinath, warned that 90 million people will join the levels of extreme poverty in the world between 2020 and 2021, reversing the trend observed in the last two decades. It has also been very unfortunate that by 2022, still 110 of the 190 countries that make up the IMF will not be able to return to the levels of economic activity prior to the pandemic, something that will make it difficult to reduce the poverty gap. The economists gathered in this year's virtual edition of Davos recognized the strong effort of governments to implement an ultra-lax and unprecedented fiscal policy that can mitigate the negative effects on the economy, although they have also warned that these will not be enough to prevent the increase in poverty levels worldwide. Similarly, gender inequality could increase significantly, with 247 million women aged fifteen and over expected to live on less than US \$ 1.90 a day in 2021, which compares with 236 million in 2019 prior to the pandemic (see chart below).

People living on extreme poverty by gender*

Millions



*Note: Defined as people aged 15+ with daily income of less than US\$1.90 per day
Source: United Nations Development Programme (UNDP)

(3) *Tech for good.* One issue that the World Economic Forum has tried to warn in recent years has been the readiness and analysis of challenges and opportunities that the *Fourth Industrial Revolution* brings with it. In this paradigm shift, a much more intensive use of artificial intelligence and cyber-physical systems are incorporated, in tandem with significant innovations carried out in transport and telecommunications. There is a key role of the *Internet of Things*, as well as an evolution towards *Industry 4.0*. In the words of Klaus Schwab, this *Fourth Industrial Revolution*, unlike the previous one, does not involve isolated technologies that emerge in themselves, but rather the coordination of the previous technological infrastructure (*i.e.* the digital revolution) in new systems that converge with each other. In the Davos 2021 agenda it was recognized that technology greatly assisted the strategy to contain the adverse effects of the pandemic, and can be an ally in the transition towards the new normal.

However, voices also emerged warning that the disruptive shocks of technological advance, together with the problems caused by the Coronavirus, could generate even higher levels of inequality. The debate has been very important, and many of these issues will probably be discussed at the annual *Global Technology Governance Summit* that will be held in Tokyo, Japan on April 6-7 this year.

(4) *Society and future of work.* The Coronavirus pandemic brought with it an unimaginable acceleration in the way all of us have incorporated technological advancements into our daily lives. Home office –or teleworking–, was a quick response to a world that had to face significant mobility restrictions, quarantines, lockdowns and contingency policies to avoid further infections. However, the other side of the digitization and automation process is related to the unemployment it has generated and the challenge for the global labor market in the medium term. In fact, remote work could double permanently in the next 5 years according to an *Upwork* study presented at this year's World Economic Forum (see chart below). In this complex labor context, the Director-General of the International Labor Organization, Guy Ryder, warned about the need for the economic policy response to be focused on preparing people for the future of work, through education and training, as well as attending the requirements for higher productivity. Beyond the inequality in the population that we have already commented, this structural change could also have implications in the real estate sector, in the transportation industry, in business hosting, telecommunications, just to mention a few.

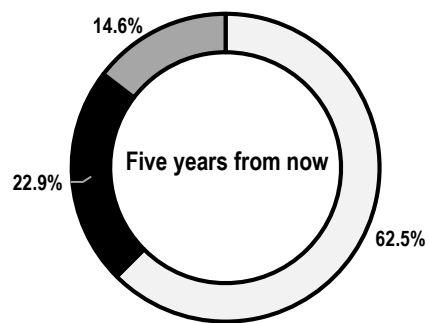
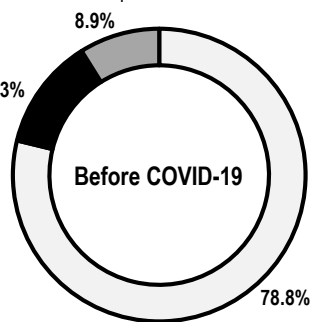
US: Work teams/departments that plan to work remotely*

% of total answers, before and after the pandemic

■ Not remote

■ Partially remote

■ Fully remote



* Note: Survey conducted between October 21st to November 7th to 1,000 hiring managers
Source: Upwork

(5) *Better Business.* This was a topic of great interest and debate among the main global business leaders: The search for a fairer balance in environmental and social aspects. Despite the unprecedented shock caused by the Coronavirus, the business community continues to focus on transforming business plans and philosophies of mission and vision towards the evolution of sustainable and inclusive organizations. The pandemic has forced all economic agents to reinvent themselves and face new challenges. Today more than ever, more coordinated public and business policies will be required towards a common goal, focused on sustainability. As previously mentioned, the implementation of ESG policies has been a first step in an evolution towards business ecosystems that have a favorable impact on society, the environment and all the people who have an interest in the company (*i.e.* main stakeholders) in the short, medium and long terms.

(6) *Healthy futures.* Health-related issues are those with the highest frequency in Internet search algorithms today (e.g. Google trends) for obvious reasons of the pandemic. However, for several years they have gained special attention in this type of large-scale international forums. In fact, the concept of health has evolved beyond the physical, incorporating emotional factors. Mental health has become one of the main factors that public and private policies have tried to address. In general, the world has seen greater spending by governments to attend health issues, also helping the use of technology that is much more powerful and accessible every day. In this context, the concept of "precision medicine" has gained further popularity and was one of the most discussed in the virtual forum this year.

(7) *Beyond geopolitics.* Within UN's Sustainable Development Agenda, a call has been made to improve the conditions of humanity –and of the entire planet in general– through 17 Sustainable Development Goals (SDG) as part of the 2030 agenda. The 16th objective is “Promote just, peaceful and inclusive societies”. In this seventh topic within the World Economic Forum Davos 2021, the analysis focused mainly on the strategies that must be adopted to achieve this goal, especially with the challenges derived from the pandemic, as well as a polarization of society in several countries. Overall it relies on fostering peaceful and inclusive societies for sustainable development, facilitate access to justice for all and create effective, accountable and inclusive institutions at all levels.

Final remarks and reflections from Davos 2021. The 51st edition of the World Economic Forum Davos 2021 was characterized by the need for international cooperation to address the future of humanity and the planet after the Coronavirus pandemic. For several years the world has tried to sail through very important paradigm shifts such as technological advancement, social and demographic changes, as well as environmental challenges. However, this year has been very special due to the economic and health conditions that the whole world is going through. At Banorte, we have had the privilege of actively participating in previous editions –both in-person and virtually–, since we consider that the World Economic Forum is a highly relevant summit due to the quality of the attendees and the topics that are addressed. We believe that today, more than ever, global coordination is required to address the strong challenges that we have experienced since 2020 due to COVID-19, starting with a fast and efficient immunization, as well as the consequences that we could see in the coming years. Many of these topics are likely to continue to be addressed by top world leaders, with very important monitoring at the special edition in Singapore on May 25-28.

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