



BEYOND THE CURVE

# HOW GOVERNMENTS CAN GALVANIZE THEIR NATIONS FOR THE REBOUND

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*This is the second article in a series on priorities for governments during and beyond the pandemic. The first article explored the challenge of restarting economic and societal activity. This and the next consider how governments can engineer a rapid and sustainable rebound to restore confidence in the short and medium term. Subsequent articles will explore how the crisis is an opportunity to imagine and build the government of the future.*

**G**OVERNMENTS EVERYWHERE ARE racing to respond to the human suffering and economic loss caused by COVID-19—as they absolutely must. But they bear another heavy responsibility: to plan for brighter times beyond. With so many norms shattered, so many industries idled, and so much of society on pause, there is no better opportunity for governments to push for the positive structural changes and policy objectives that will bring lasting benefits to all citizens, societies, and businesses.

We do not mean incremental local programs that might benefit the few. We mean

bold, far-reaching, and visionary initiatives that amount to nation-rebuilding. We mean huge structural moves that will reshape society and the economy for the better.

The urgency and immensity of the COVID-19 crisis force unflinching focus on the immediacies of health care provision, economic remediation, and social dislocation, for sure. But they also lay bare many countries' fissures and failure points. They expose vulnerabilities and the vulnerable, rigidity where there should be flexibility, organizational and societal rheumatism where there should be resilience.

The good news is that everything is on hand not only to begin patching those fissures and fixing the failure points but to start rebuilding in ways that ensure competitive, innovative, resilient, and sustainable national platforms far into the future.

The technologies are there. The raw materials are there. The ideas are there. And in many countries, the institutions and networks are there.

At least as important, the willingness for change is there. Citizens want to see a path forward to a bright future. Business leaders will eagerly support the long-term growth it will unleash. And investors will fund it.

With those factors in mind, we envision three priorities that can begin to build the base for future competitiveness and enable countries to emerge strong from the COVID-19 crisis. (See the exhibit.) In follow-on articles, we will delve into the specifics that inform those priorities.

### Priority 1: Double Down on Existing and New Paths to Growth

The approaches and tools most useful for creating economic advantage have not changed fundamentally since the COVID-19 crisis began. It is government’s obligation to double down by putting those approaches into action—and developing new approaches that leverage the enormous momentum for change unleashed by the pandemic. Here are three approaches that we contend must be priorities for governments around the world.

Apply digitization, innovation, and entrepreneurship to speed up national competitiveness. There is no shortage of digital

“energy” worldwide. This is the time to tap into it, to create, once and for all, a truly digital economy. This calls for accelerating and augmenting investment in many of the digital infrastructure elements that are already in play to some extent, such as 5G cellular networks, artificial intelligence, machine learning, and the Internet of Things. Those technologies and many more hold the keys to unlocking massive value for economies and for all citizens.

This is also a chance to close the digital divide—starkly exposed as some children, suddenly “attending” school remotely, lack the digital tools or bandwidth availability to keep up with their more privileged classmates. It is an opportunity to foster digital inclusion in many other ways, such as expanding broadband access and increasing consumer protection for internet services.

Similarly, the pandemic must be a spur to government leaders to find the right balance between using big data to combat COVID-19 and protecting individuals’ rights to privacy. That inherent tension will not ease by itself; in fact, as societies emerge into the post-COVID world, they will find it that much greater.

Further, digital economies are built not only on ideas but on timely investments in

#### Three Priorities for Emerging Stronger from the Crisis

1	2	3
<b>Double down on existing and new paths to growth</b>	<b>Build and strengthen capabilities for the future</b>	<b>Develop economic and social resilience</b>
<ul style="list-style-type: none"> <li>Drive competitiveness fundamentals through digital, innovation, and entrepreneurship</li> <li>Capture emerging economic opportunities</li> <li>Push for sustainable transformation with “green” stimulus programs</li> </ul>	<ul style="list-style-type: none"> <li>Individuals: Strengthen human capital</li> <li>Companies: Boost productivity</li> <li>Governments: Rethink the way government works</li> </ul>	<ul style="list-style-type: none"> <li>Build resilience into the economic fabric</li> <li>Seize the window of opportunity for overdue policy reforms: Enhance social resilience</li> </ul>

Source: BCG analysis.

research and development. It has been demonstrated that the return on investment on R&D in times of slower economic growth is higher over the long term. One recent European Commission study found that innovation leaders in Europe have countercyclical patterns of government funding of R&D. For example, in 2008—during the global financial crisis—Germany boosted R&D funding for its small and midsize enterprises and reaped the benefits. In many countries, it may be necessary to develop a more flexible regulatory framework to support R&D investments.

Beyond R&D funding, the crisis has underscored the importance of regulatory flexibility for promoting innovation in all its forms. In the race to develop a vaccine for COVID-19, governments need to ensure that regulatory mechanisms and pathways do not impede technological and scientific advances. Rather, governments must rapidly re-examine the traditional carefully staged approach to clinical trial guidelines to see where it is possible to safely use novel tools and designs, expedite timelines for approval, and smooth the way for international collaboration.

In addition to rethinking regulatory processes, governments need to engage more actively with grassroots open-source technologists. Around the world, we have seen citizen-led open source innovation—from Filipino fashion designers working with infectious disease specialists to design and create personal protection equipment to innovators and medical professionals in Spain creating 3D-printed ventilators. Governments that do not tap into grassroots ingenuity will be underserving their constituents.

The COVID-19 crisis also provides a timely reminder of the need for a richly diversified economy—one with a dense ecosystem of entrepreneurial firms. France appears to be recognizing this: a significant share of the country's stimulus packages is going to startups. South Korea offers other examples of support for new firms as it moves away from its post-war chaebol-led model of development.

**Invest strategically by leveraging the economic shifts caused by COVID-19.** It is highly likely that the pandemic will permanently alter patterns of global trade and shift consumer behaviors for good. Early in the COVID-19 outbreak, businesses that were heavily reliant on Chinese and China-based suppliers began to rethink their supply chains. Since then, their ideas have coalesced into broader calls for reshoring and for bolstering domestic sources of critical components and materials.

Government leaders now need to leverage those calls in thoughtful, nonpartisan, non-nationalistic ways to rethink the strategic connections between their industrial and national security policies. There are already many obvious arguments for localizing production of medical equipment, pharmaceuticals, and more.

Beyond the determinations of what is critical to a country's long-term security, the COVID-19 crisis is likely to reshuffle geographic configurations of noncritical supply chains. Already, there is lively discussion of what businesses need in order to reduce dependence on a few mega-factories. Insurers, investors, and others closely attuned to risk will pay much closer attention in future to supply chain risks. The likely outcomes will be geographic dispersion of sourcing—a definite steppingstone for countries that have had only minor manufacturing footprints up to now—and expansion and acceleration of distribution production technologies such as 3D printing.

There are solid precedents that demonstrate the efficacy of such initiatives. In China, the 2002–2003 SARS outbreak is widely credited with accelerating the adoption of online shopping in China and, specifically, with the commercial success of the e-commerce giant Alibaba. A comprehensive rollout of broadband internet was a necessary but insufficient precondition; it was the SARS epidemic that triggered and accelerated the shift in consumer behavior. In the US, the drop in asset prices precipitated by the 2008 financial crisis led to the rise of the sharing economy, leading to the

founding of companies that are now household names, such as Uber and Airbnb.

It is already possible to guess at some of the innovations that this pandemic will unlock. We anticipate significant investments in health care data and analytics, improvements in care delivery models, and new ways of segmenting populations. The crisis has also amplified the discussion about climate change, sparking calls for accelerated and determined action to treat that issue at least as seriously as COVID-19. As previously polluted skies have cleared, some observers have aired arguments for accelerating production of electric vehicles and EV charging networks.

The task before government leaders is to conduct scenarios and assess their country's capabilities to identify where best to compete. Then it falls to them to determine how to make the appropriate economic shifts. At a minimum, that will involve stimulus measures tailored to the identified opportunities, along with investments in education and training to help more workers move into those areas.

**Push for sustainable transformation with “green” stimulus programs.** As COVID-19 has highlighted humankind's susceptibility to exogenous threats, it has elevated the rationale for acknowledging and more actively combating climate change. Governments should be strategic in how they design policy responses so they achieve both short-term outcomes and long-term objectives—particularly those related to sustainability.

Factoring sustainability into stimulus packages and tying state or regional aid to meeting green conditions are two of the many ways for governments to meet longer-term criteria of decarbonization and to benefit national and global interests at the same time. During the 2008 financial crash, South Korea's stimulus package provided a green stimulus framework that focused on green transportation, cleanup of rivers, and the energy efficiency of buildings. In the same period in the US, President Obama granted state aid to General Motors with

the condition that the company accelerate the development of electric cars. And in mid-April 2020, Canada announced a large aid package for the energy sector that includes substantial funding to support 10,000 jobs in environmental cleanup and emissions reductions.

## Priority 2: Build and Strengthen Capabilities for the Future

Governments must also use this opening to pinpoint the capabilities their nations will need to be not only economically competitive far into the future, but also resilient to the inevitable crises of tomorrow. Strong capabilities are essential at three levels: individual citizens; organizations, including businesses; and government itself.

**Individuals: Strengthen human capital.** In many countries, over many decades, economic development has entailed investments in the talent of citizens. Funding has gone into everything from university and college curricula to employee upskilling and digital learning. Now, with so many individuals experiencing unemployment, temporary underemployment, or cuts in working hours, the opportunity costs of training are lower. Furthermore, governments and social security systems are now supporting vast numbers of people. This opens up sizeable opportunities for investments in training and upskilling.

Singapore shows how such programs can be structured. Its Self-Employed Person (SEP) Training support scheme provides an allowance to enable beneficiaries to make use of downtime to train and upskill. Singaporean SEPs who sign on to the country's social support schemes are obligated to participate in such training. At the same time, Singapore's SGUnited Traineeships Programme, announced in its Resilience Budget in March 2020, is designed to support new graduates and boost their employability by the time hiring demand picks up.

Singapore also ties stimulus programs to worker upskilling and productivity im-

provement. It co-funds the wage costs of companies that offer traineeships to first-time job seekers. And the Australian federal government's COVID-19 response package provides wage assistance to help small businesses retain their apprentices and trainees.

**Companies: Boost productivity.** With remarkable speed, remote working models are becoming the norm in knowledge-based sectors. Zoom, WebEx, and many other videoconferencing tools have seen adoption rates soar. Their widespread use demonstrates proof of concept on a massive scale; a perfect example of an underutilized technology suddenly disrupting centuries-old modes of working and promoting productivity gains that will be difficult to reverse. Italy's Digital Solidarity initiative shows what is possible. It is a government portal through which companies—particularly SMEs and self-employed people—can register to access digital teaming and remote working tools provided at zero cost. The services, such as virtual teaming, cloud services, and e-learning, are offered by providers; the Italian government is the orchestrator of the initiative.

Concurrently, COVID-19 is forcing a wholesale rethink of what “the workplace” means. Many large employers are likely to reconsider their massive expenditures on commercial real estate and revisit their assumptions about the productivity of home-based workers. Retailers already have no choice but to accelerate their evaluations of physical stores as e-commerce gets a boost from self-quarantining customers. For government leaders, the implications of new business ecosystems are far-reaching.

### Priority 3: Develop Economic and Social Resilience

A true “black swan” event like the current coronavirus crisis has revealed the fragility of economic systems in many countries. It has shown the extent to which we have undermined the importance of resilience in our pursuit of rapid growth and optimizing for economic output. It is the obligation of

all government leaders to hardwire resilience into their countries' economies in order to withstand the shocks that lie ahead. That effort must take place on several levels simultaneously.

**Build resilience into the economic fabric.** A top priority is to ensure that supply chains are rebuilt to be as resilient as possible. That does not imply a return to the days of massive inventory placements all along the supply chain. But it does call for thoughtful, data-driven approaches to everything from inventory management to demand signaling to logistics efficiency. Many of the tools and practices exist; it is time to put them to work.

Nowhere is that more critical than with the supply chains for food, medical supplies, and health care equipment. Governments must be proactive in planning to localize, regionalize, or otherwise secure those crucial supply lines. They must re-evaluate current bilateral and multilateral trade agreements—and envision new ones—that enable supplies of critical components and materials. They also have to look anew at public stockpiling of critical supplies in sectors such as health, utilities, energy supply, and transportation. Singapore has shown what is practical: after the SARS epidemic, the country stockpiled disposable personal protective equipment and has benefited as a result during the COVID-19 crisis.

In tandem, national governments must prioritize the sectors that are most relevant to their competitiveness and then provide those sectors with the support they need to become truly resilient. That will call for an over-the-horizon view; no country can assume that the industries that account for the bulk of its jobs or foreign exchange today will be its critical industries of tomorrow.

To further develop economic resilience, governments will do well to promote economic diversification, broadening their industrial bases by nurturing the development of the assets, skills, tools, and support needed by emerging industries, for example. They must also prepare to spur realign-

ment and retraining of industrial workforces. Again, the COVID-19 crisis must be a catalyst for investments that have to be made anyway as the future of work is increasingly disrupted by automation.

**Enhance social resilience by promoting policy reforms.**

A decade after public protests worldwide against economic inequality, the COVID-19 pandemic reminds us how little progress has been made on that front. Now comes an opportunity for national leaders to act, not only to protect society's most vulnerable but to enact policy reforms that can significantly redress imbalances in labor markets and improve social welfare.

There are many encouraging signs. New floors for social protection are being created, and social welfare is being expanded to include vulnerable workers—witness the Coronavirus Aid, Relief, and Economic Security (CARES) Act in the US, which establishes benefits for gig economy workers for the first time. In Australia, the JobKeeper Payment program is also available to self-employed individuals.

However, there is much more to be done to reinforce the social contract and, in many places, to repair it. In developing economies, where informal workers constitute a significant portion of employment, government ministers must acknowledge the realities of their informal economies and make them central targets of recovery

packages. (The Philippines has recently extended cash-in-hand support to informal workers.) In the same vein, there is plenty of room to expand job protection schemes that reduce market dualism—that is, narrow the gap in protection between permanent and temporary contracts. Such schemes have been proven to support employment and productivity.

**I**T IS UNCOMFORTABLE to speak of opportunity in a time of such unfathomable and far-flung tragedy. But if there is even a glimmer of the positive in the COVID-19 crisis, it is the renewed focus on issues that are structural and economic—that transcend the personal and the political. Many of those issues could have been addressed a long time ago; the tools and techniques have been there. But this is not a time to look back. It is a time to look forward and to begin the hard but essential work of rebuilding our societies and economies for the bright post-COVID days ahead.

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