The Long View: Geostrategic Business Issues to Watch in 2020

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The number, significance, and pace of global developments in the last few months of 2019 has felt unprecedented. With the US-China cold war, Hong Kong, Brexit, Syria, and impeachment in the US, plus hot spots across Latin America and the Middle East, it looks like the world will heat up in 2020.

The term VUCA (volatility, uncertainty, ambiguity, and complexity) encompasses the current geostrategic situation well. A VUCA world requires businesses to use specific strategies to be successful, and planning is obviously much more difficult and must be done for a wider range of scenarios to avoid being surprised. Bolstering the brand and reputation, risk management, and hedging will also become more important. The Long View explains ten key issues to watch in 2020 so you can ask more questions, challenge more assumptions, and be more skeptical of business-as-usual mentalities.

Macro themes to watch

Stuck in the mud: Slow growth is the biggest risk in 2020.

Economists expect that global growth will continue to be tepid, but they do not foresee a global recession. However, they also have a striking lack of conviction in their calls, so political risks could catalyze a change in sentiment and a downturn.

Widespread concern about the global synchronized slowdown has persisted throughout 2019. In October, for example, the IMF warned that global growth was subdued and fragile, and the weak trade data released in November reinforced this outlook. Trade and economic uncertainties are motivating businesses to defer investment, and with interest rates at already historic lows, central bankers' defensive monetary firepower is limited. Chronic political dysfunction in key markets is exacerbating the tepid global growth (e.g., the UK, Italy, Mexico, Turkey, Brazil, South Africa, Argentina), which thwarts the adoption of effective growth strategies and undermines confidence.

In this world of slow growth, political risks become more salient as potential market destabilizers. In 2020, US-China relations, US election jitters, and the potential for a violent crackdown in Hong Kong are key issues to watch, although a less predictable black swan event with systemic and enduring impacts (think North Korea or a cyberattack) could also destabilize markets. ▶

Three positive notes that encourage stability are the ample oil and gas supplies in global markets that mitigate Middle Eastern supply risks, a sense that the US economy bottomed out in 2019 and may recover in 2020, and the greatly reduced the risk of a disorderly Brexit thanks to the tentative deal on the UK's EU departure.

Cold War II: Business will have to navigate a superpower relationship that goes south while economic disengagement takes hold.

A mini-deal that dials back or defers some tariffs could be struck in 2020, but a comprehensive agreement is out of the question. Rather, superpower politics are likely to confound the rich economic relationship in many ways, and the longer the animosity endures, the deeper it will be engrained.

In the US, there is a bipartisan push to prevent US pension funds from investing in Chinese equities, the Treasury Department is moving forward with new rules tightening national security restrictions on foreign investments, and the Commerce Department is working to specify which technologies will be subject to new export restrictions. After Commerce started curtailing business with Huawei earlier this year, Beijing announced in May that it would publish an "unreliable entities" list, which has not yet been released.

Then in August, President Donald Trump also added Chinese exports of fentanyl to his rationale for new tariffs. In November, he signed legislation that could end Hong Kong's special trade relationship with the US and would mandate sanctions on Chinese officials should Beijing crack down on the demonstrations in Hong Kong. As the sanctions on Russia have shown, restrictions imposed by Congress are nearly impossible to lift.

For Trump, beating up on China makes for good political theater in an election year—he controls the agenda, which bolsters his America First credentials. The Democrats largely support a get-tough strategy for China, but they have yet to land on a compelling alternative policy line. As events in 2019 illustrated, any announcement of a deal will create an opportunity for Democrats and China hawks on the right to pick the proposal apart and motivate Trump to backtrack.

While China's leaders hope a new administration will be elected and moderate America's stance, President Xi Jinping has made it clear that he will not bow to US pressure or its demands that China turn away from its growth and innovation strategies. Indeed, his political identity at home is predicated on the notion of China First.

In this context, businesses and investors on both sides of the Pacific will have to navigate not only a complex tariff environment but also greater political scrutiny and tighter and less predictable regulatory interventions. Chinese authorities put a premium on not being at the mercy of global supply chains, and they have become convinced that the US is not a reliable partner. So, while Beijing may agree to purchase American agricultural products in the near term, US farmers should expect that the massive Chinese market will ultimately close to them. This stance will also affect technology and capital goods purchases. ▶

A major trade deal is out of the question in 2020. Rather, there are many ways the rich economic relationship could get confounded by superpower politics.

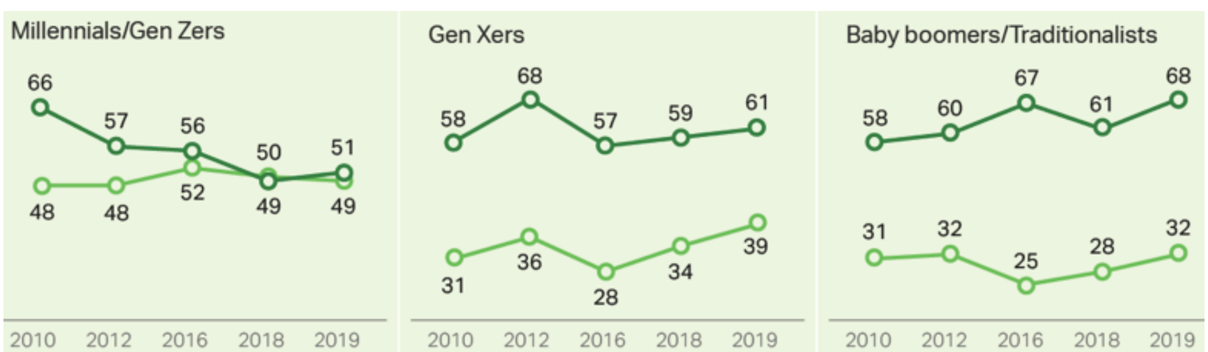
Inequality everywhere: The business issues to focus on are social protection, fairness, and accountability.

Inequality, like climate change, is a word of the year in 2019, and it must be added to the risk register in 2020. Inequality is being cited as a catalyst for a host of political risks in many countries—from populism in the UK and Italy to social unrest in Chile, France, Hong Kong, Lebanon, Iran, and Iraq—and will be front and center in the US presidential election. Slow global growth in 2020 is likely to make the issue more visible everywhere.

The topic of inequality is very broad, but it can be broken down into issues that are very business relevant, especially income stagnation, job insecurity, and lack of opportunity. Slow growth and megatrends such as tech transformation and globalization of the labor force are creating an acute sense of vulnerability, particularly among the middle classes. Insecurity, in turn, drives anger, blame of others, and a feeling that the system is rigged.

During the 20th century, governments did a lot to provide basic social protections and promote economic security and fairness. But in the 21st century, social welfare efforts have not kept up with economic and technological change, and establishment elites have come under attack for being unresponsive and unaccountable on pocketbook issues ranging from job security and gig work to the cost of education, housing, gasoline, and transit. Political entrepreneurs on the right and the left have capitalized on social media, exploited anxieties, and bashed the system and the establishment. In the US, younger cohorts are particularly interested in equity and inclusion, as demonstrated by the declining enthusiasm for capitalism, while older generations remain supportive of it (see chart, below).

Positive views of capitalism and socialism in the US, by generation (%)



The lines track positive views of capitalism (dark green line) and socialism (light green line).
Source: Gallup, November 25, 2019.

In the breach, businesses are being expected to do more. Surveys conducted between 2017 and 2019 by JUST Capital, a US organization that ranks companies on stakeholder issues, revealed that companies' most important governance priority was worker welfare issues (such as paying a living wage, ensuring equality in the workplace, and compensating workers reasonably in relation to top-level executives and shareholders). ▶

Responding to such sentiment, the Business Roundtable, an association of large-cap companies, in August issued a new Statement on the Purpose of a Corporation that downgraded shareholder primacy in favor of serving a larger set of stakeholders. The statement opened with the following declaration: “Americans deserve an economy that allows each person to succeed through hard work and creativity and to lead a life of meaning and dignity.”

In 2020, business leaders, especially those in the US, will be expected to pay more attention to the equity agenda, and they can accomplish this with commitments to promote social protection, fairness, and accountability. Conversely, topics such as the gig economy, labor arbitrage, and disrupting markets will be viewed more skeptically. The most talked-about framework for gauging progress—ESG (environment, society, and governance)—requires firms to demonstrate tangible results and accountability. If business leaders do not follow through on their initiatives to address inequality, cynicism about free markets, capitalism, and the system is likely to grow.

For most people today, disruption is disruptive. It is not a positive concept.

World on fire: Business in 2020 will feel intense pressure to take radical action on climate change.

The world seems to be on fire—politically and in real life—from California to the Amazon, Siberia, and Australia. Some climate developments appear to be happening faster than scientific forecasts had predicted, other phenomena (such as fire frequency in California) have not been anticipated, and critical tipping points (such as triggering the desertification of Brazil) remain unknown. In short, the human environment may not be as resilient as the predictions stated, and climate change is contributing to the narrative of a world in crisis and out of control. To this point, carbon emissions reached their highest level in 2019 despite pledges by countries and businesses to make significant cuts.

Climate concern pervades global popular culture. It was the dominant issue in many elections across Europe in 2019, and the new leadership of the European Commission and the European Central Bank have pledged to put climate action at the top of the European agenda. At a November US Federal Reserve conference devoted to climate change, the president of the San Francisco bank, Mary Daly, said, “Early research suggests that increased warming has already started to reduce average output growth in the United States."

Seventy countries have indicated they will develop more vigorous climate plans in 2020, while the US government has moved in the opposite direction—which complicates the business community’s response.

Visible through the smoke is the fact that younger folks are very angry about the state of the planet and are demanding more radical environmental action from the companies that they work for and buy from. One manifestation of this is flight shaming—peer pressure to reduce air travel. If the idea of flight diets takes off, business leaders will have to rethink how they function in the borderless world while promoting organizational cohesion and client-centric service. ▶

Add climate to the risk register—not just due to operational threats, but also stakeholder pressure.

Corporate patriotism: Rising nationalism and geostrategic conflict will require businesses and investors to show greater allegiance to a flag.

Globalization accelerated the rise of the borderless firm that can conquer new markets, build more efficient supply chains, and arbitrage labor and taxes. But in many respects, this megatrend appears to have peaked, and local is becoming the new global.

Governments have long applied a national lens when evaluating corporate domiciles and assessing taxes, and the practice is accelerating with efforts to curtail cross-border tax avoidance strategies. Since 2015, 130 jurisdictions have signed on to the OECD/G20 framework to curtail base erosion and profit shifting. State-owned enterprises and national champions, on the other hand, are typically seen as acting in a specific country's interest.

Some governments sanction businesses that prioritize business interests, as the Kremlin has done with Russian businesses to get them to put national interests over business interests. Beijing similarly expects private Chinese companies to play for the "national team." And some foreign investors have shied away from the Saudi Aramco share privatization over concerns that the government would interfere in company strategy.

The issue of corporate patriotism is likely to become much more apparent in the coming year. As geopolitical competition heats up, technologies, infrastructure, and all data deemed critical will take on an increasingly nationalist cast, with governments seeking to control innovation and access.

The issue is already escalating. In August, Trump told US businesses to pull out of China, and Democrats such as presidential candidate Elizabeth Warren are pushing patriotism: American companies enjoy economic benefits conferred by the US's legal system, infrastructure, and education, so they should be paying more for the privilege. In the UK, Brexit is forcing British companies to rethink their national basis while scrambling to retain their access to the EU market. Meanwhile, Beijing is expecting that global companies in Hong Kong play for the People's Republic, and if they do not, they are likely to be hindered from doing business on the mainland.

Not to be outdone, in the US, Vice President Mike Pence in October chided Nike, the NBA, and other American organizations for allegedly kowtowing to Beijing. The risks and costs of patriotism are clear: NBA head Adam Silver replied a couple of weeks later that, "The financial consequences have been, and may continue to be, fairly dramatic," but he added that the league was an American institution that would not compromise its commitment to American values.

While they pursue global strategies, business leaders will be faced with more questions around national identity and the obligations it entails. As will be noted below, companies that fly a European flag will likely be viewed more favorably by the new EU leadership. And in the context of the emerging US-China cold war, American and allied businesses will have to ask, What does it mean to partner with or acquire a Chinese entity? Does a firm buy Chinese or Western equipment? Can a global company seek growth in both China and the US, or will it have to choose one or the other? ▶

In today's geopolitics, local is the new global, and firms will need to pay greater attention to national identity and the obligations it entails.

Key developments to watch

Bipolar nation: After a pitched election battle, America will remain divided, and the business community will be stuck in the middle.

Many facts and models are being cited to predict the outcome of the US election, but political rules of thumb these days are constantly being broken. Evolving issues to watch include media spending, social media dynamics (including foreign and domestic fakery), and voter mobilization. Against this backdrop, there are several key signposts:

- **Impeachment.** Barring a blockbuster development, the trial underway in Washington is almost certainly going to result in impeachment by the House and acquittal by the Senate. Given the predetermined outcome, the drama probably will not change voter sentiment but will animate it.

- **The Democrats.** The field is large, the policies being proposed are wide-ranging, the personalities are varied, and the issues that mobilize the electorate next fall are still far from settled. A lot will change in the first sprint of the February primaries, and then on Super Tuesday a few weeks later when California, Texas, and 14 other jurisdictions vote.

- **Black swans.** The world is unsettled, and a distracted and thinly staffed White House makes the management of geopolitical risks less certain. The news cycle is rolling at a furious pace, and a lot will happen that makes the Ukraine affair—like the Mueller investigation—a faint blip as the election approaches.

- **November 4, 2020.** The day after the election, one side is going to feel deeply aggrieved. Whoever is president in 2021 will probably also have to contend with a divided and polarized Congress. The country could be more fractious and paralyzed than before.

For businesses, the policy uncertainty and potentially big swing in outcomes looming in 2020 is a top risk. At the same time, the business community is being expected to play a larger role in addressing societal concerns such as climate change, privacy, inequality, and workforce readiness. But, political gridlock and polarization and the intense gaze of social media make stepping up and taking a stand on issues risky.

Despite domestic politics, the US is likely to remain a global economic haven in 2020.

Is the UK OK? No-deal Brexit risk recedes but long-term uncertainty remains.

Despite headlines about elections and Brexit uncertainty, Prime Minister Boris Johnson will close a deal by January 2020 that allows the UK and EU to avoid a disorderly Brexit and improves both sides' near-term business outlook. The deal will also take a risk to global growth off the table.

Johnson's deal sets out a much harder Brexit than the one former Prime Minister Theresa May proposed. For example, there will be no customs union with the EU (except in Northern Ireland), which will add complexity and cost to trade with Great Britain over the longer term. Financial and similar services based in London will need to be moved into the EU if they have not been already, whereas professional services were never part of the common market so impacts on them will be minimal. And the rights of the 3 million EU citizens in the UK will be protected. ▶

While Johnson's deal increases near-term clarity, his desire to free the UK of EU rules will complicate and draw out negotiations on the new relationship. It could take years to agree on everything from data and privacy to pharma, fishing, food, and security. Then the UK will need to renegotiate its economic relationships with the rest of the world. Expect Brexit to be a 10-year process that begins once a deal is closed.

Not special: Hong Kong loses its status as an attractive and safe place to do business.

The explosion of civil unrest in Hong Kong Special Administrative Region was a big surprise of 2019, and it epitomizes the combustible mix of economic inequality, frustrations with a political establishment, and the power of communications technologies and social media.

It is difficult to predict what will happen in 2020, as the protestors' grievances and confrontational tactics have quickly escalated. In the near term, the Hong Kong government is trying to wait out the protests while ramping up the police presence and arrests, and firms have been pressed to mute anti-establishment sentiment within their ranks.

Hong Kong's administration has sought to address one set of protestor grievances—high living costs and limited economic opportunity—by announcing new benefits, but Chief Executive Carrie Lam has handled the situation poorly. (In November, Lam declared on TV that protesters were "enemies of the people"—a Leninist term.) As a result, the municipal administration has lost credibility, and whoever Beijing sends in to remedy the situation will not be welcomed.

Even if these demonstrations subside, others will re-erupt at some point because many of the protestors, especially the younger college-educated professionals, see this situation as an existential struggle to preserve civil liberties and freedom from Beijing's interference. The landslide victory by pro-democracy candidates in the neighborhood council elections on November 24 legitimized popular frustrations and disproved arguments made in the mainland media that a silent majority opposed the uprising.

That said, Beijing has asserted for years that it is the sovereign authority of Hong Kong, and in November, the Central Committee of the Communist Party of China signaled that it will escalate its efforts to smother the territory legally, politically, and culturally. Hong Kong's Legislative Council elections, slated for September 2020, will be a key inflection point to watch.

A near-term casualty of the turmoil is the economy. In the second half of 2019 transactions, tourism, real estate, and the consumer economy took a hit, capital flight surged, and nonessential business travel to the region has been curtailed. These trends will likely continue into 2020, and the economic pain will amplify political tensions.

In the longer term, the enclave's potent traditions of open society and the rule of law will be undermined, injuring the territory's role as a trade and transactions hub and financial conduit into and out of China. Chronic violence, uncertainty, and economic malaise will force global companies to rethink their operations, investments, and people strategies in Hong Kong and search for alternatives such as Singapore, Shanghai, and Tokyo. ▶

Political developments in Hong Kong and Taiwan in 2020 will shape views of China as a global leader and business partner.

Another needle: Taiwan's assertion of autonomy irks Beijing.

Many global firms have close ties with Taiwanese partners that have significant manufacturing and trade interests in China. The Taiwanese firms are scrambling to respond to American tariffs and pressure to curtail critical technology transfers to the mainland. And, as part of an intensifying cross-straits political standoff, Taipei is encouraging Taiwanese firms to "reinvest" locally and reduce Taiwan's economic reliance on mainland China.

Hong Kong's rebellion is also affecting Taiwan's presidential and legislative elections which will be held in January 2020. Since the uprising began, President Tsai Ing-wen and her Democratic Progressive Party have pushed to distance Taiwan from China. She has voiced emphatic support for the Hong Kong protestors and rejected Beijing's push for a "one country, two systems" arrangement.

Whereas her approval ratings languished in the mid-20s in late 2018 because of a number of domestic problems and her party suffered defeat in local elections, her approval rating since the Hong Kong unrest began has risen to the mid-40s. In November polling, she enjoyed a 12-point lead over her main opponent, and she was expected to win the vote. Beijing will therefore likely face a second rising threat to its ambitions to control Greater China. Increasing cross-straits tensions will add uncertainty for global firms that rely on Taiwanese partners.

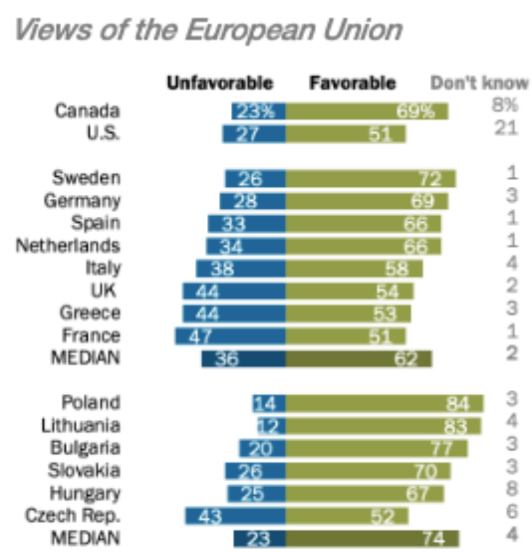
Brussels strikes back: The new EU leadership sets a Europe First agenda.

European Commission President Ursula von der Leyen has said she wants her administration to be "geopolitical" and indicated that she and her cabinet will seek a more muscular international stance. These ambitions will require multinationals to pay attention to a Europe First agenda in 2020.

Greater oversight and regulation will be a key trend. One critical issue for businesses is Europe's move to enhance its ability to compete with the US and China (making Europe "fit for the digital age") by focusing on issues such as digital tax, antitrust measures, data aggregation, the digital transformation of businesses and industry, and greater regulation of AI and social media (e.g., around hate speech and violence). By extension, the big US tech companies appear to be especially at risk of being targeted. Another priority is accelerating the transition away from fossil fuels (a "European Green Deal")—an agenda that has been seconded by European Central Bank President Christine Lagarde.

Expect the EU to assert itself more in trade policy (regarding, for example, negotiations for a new relationship with the UK and deals with the US and the development of an investment agreement with China), further elaborate on a European defense fund, and place greater emphasis on the fiscal union, migration, and border control.

Although euroskepticism has been on the rise, threats to the EU and "old Europe" are overstated for a few reasons. First, Brexit will become less of a rollercoaster ride for Brussels in 2020. Second, Brussels will no longer have to deal with strident objections from London on issues such as taxation ▶



Source: Pew Research Center, October 21, 2019.

and regulation—making the EU's policy thrust a bit more cohesive. Third, the concern that Brexit would build support for anti-EU parties in Europe has not borne out. Finally, Europeans overwhelmingly support the European project (see chart), which helps offset concerns about a distant and unresponsive government in Brussels and pressing challenges such as migration and refugees.

Other trends and issues we are watching

- **Technoskepticism takes hold**. Longview Global Advisors identified the politicization of technology as a top trend in 2019. This risk will intensify in 2020 on a host of fronts, including antitrust, tax, privacy, cybersecurity, national security, data localization, electioneering, worker rights, and diversity and inclusion measures, and, ultimately, the ability to trust. These challenges aren't limited to Big Tech, as most large firms are transforming into tech-centric enterprises as well.

- **Will emerging markets emerge?** Although emerging markets are commonly viewed as growth markets, their growth rates, in real purchasing power parity terms, have lagged advanced economies' growth, and their equity returns have lagged the performance of US equities. In terms of GDP growth, Latin America, the Middle East, India, and Africa are all underperforming their recent past, while Eastern Europe and Southeast Asia are doing well.

- **Regional free trade continues to expand.** Despite headlines about rising tariffs and the demise of the World Trade Organization, regional and bilateral deals continue to be sealed. Notable agreements include the African Continental Free Trade Area, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, the Regional Comprehensive Economic Partnership, and the EU-Vietnam and EU-Japan agreements. The United States-Mexico-Canada Agreement will expand regional trade as well.

- **The benefits of plastics get reassessed.** Rapidly growing evidence of how microplastic pollution is choking the planet is starting to catalyze a rethink of plastics in the consumer economy that will go far beyond the elimination of plastic bags and drinking straws.

- **"Social unions" are mobilizing.** Workers are organizing and more forcefully pushing social and political agendas from inside the companies they work for. Some issues that workers are likely to mobilize on in 2020 include climate, diversity and inclusion, human rights in Hong Kong and China, surveillance, and corporate support to politicians and parties. As a result, executives will have to more carefully balance the interests of internal and external stakeholders.

- **Have we reached Peak Xi?** China's president has centralized power and promoted his image as a sage global leader. Now, his personal brand isn't faring so well: China's role as an engine of emerging market growth has stalled, Xi faces stiff political resistance in Hong Kong and Taiwan and increasing wariness across Asia, and his human rights record and climate, technology, and infrastructure programs are attracting sharp criticism.

- **Who will rule Russia?** In 2024, Vladimir Putin will reach the two-term constitutional limit on his current presidency, and political players are jockeying for position. In the meantime, Putin will work hard to show that he remains in control.

- **Disability awareness is rising.** The inclusion of people with disabilities—in hiring, marketing and branding, product design, and accessibility—will rise on the business leadership agenda in 2020. In a slow-growth, VUCA world, disability inclusion is a good-news story and a social agenda item that business leaders can shape and lead. ■