

The Long View 2020 ½: What Changes, What Stays the Same?

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DJ Peterson, PhD, President

In December 2019, Longview Global Advisors outlined key issues and trends to watch in 2020. Then the Covid-19 pandemic changed the global narrative.

The pandemic and associated economic and social shocks are unprecedented in many ways and these forces have accelerated many preexisting economic, social, and political trends, making definitive answers about the future hard to come by. In many instances, we do not have enough data or experience yet to know what will happen in the middle and long terms. But we assert that the longer the pandemic lasts, the more profound the changes that will be left in its wake.

This brief offers a mid-year reassessment of risks and signposts to watch as the pandemic continues. Throughout, it is important to ask, What changes, and what stays the same?

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Five global issues we are watching

A cascade of crises is the biggest risk in 2020.

In December, we named slow growth as the biggest risk for 2020 but noted that a black swan event with systemic and enduring impacts could occur. It did.

In June, the IMF forecasted that pandemic-induced disruption would cause a 4.9% contraction in the global economy—the worst performance in 90 years. The UK, eurozone, and Mexican economies are expected to shrink by more than 10% and the Indian economy by 4.5%. China's will grow by only 1%.

While most economists expect a rapid recovery to start this summer and extend into 2021, the reality is that such predictions are hard to make during this pandemic and economists have issued repeated downward revisions. Federal Reserve Chair Jerome Powell has reiterated throughout the crisis that the most important variable in sustaining economic recovery is keeping the virus contained. But given the mid-year Covid surges in the US, India, Latin America, the Middle East, and Africa, and predictions of a second wave in countries that have tamped down the first, forecasts of a strong global bounce-back in 2H20 look highly questionable.

Amid this economic pain and uncertainty, social and political risks become more salient this year and next, including US-China relations, tensions in the EU, the potential for a violent crackdown in Hong Kong, and political instability in stressed economies, including in the US. ▶

Risk cascade potential



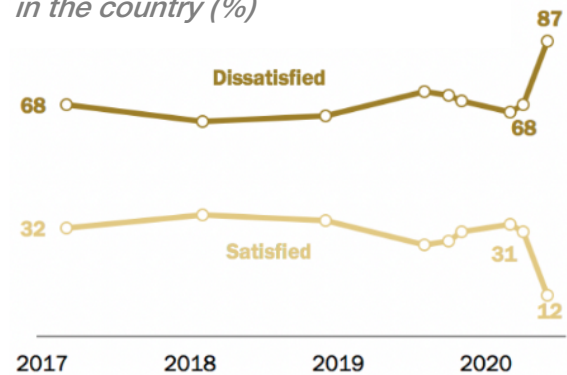
We are not in this together: US election implications.

One of US businesses' top risks to manage—after pandemic response—is the potentially large swing in the post-election business environment.

Many facts and models are being cited to predict the election outcome, but political rules of thumb are constantly being broken. Issues to watch include media spending, social media dynamics (including foreign and domestic fakery), and voter mobilization. Another issue is vote-by-mail dynamics: With virtual voting getting underway in early October, political sentiment will be frozen to an extent a month before Election Day. Against this backdrop, these are the key signposts to watch:

- **Pandemic trajectory.** Given poor leadership and popular resistance to public health guidance, experts such as Dr. Ashish Jha of Harvard, expect Covid-19 to remain widespread beyond the end of 2020. Thus, we are unlikely to see a big shift in unfavorable views of President Trump and the direction of the country before voting begins in October. As of July 6, Trump's approval rating was 38%, down by over 10 percentage points from May, according to Gallup. The Pew Research Center has documented a sharp rise in anger and fear about the state of the nation.

Views of the way things are going in the country (%)



Source: Pew Research Center survey, June 16-22.

- **Black swans.** In December, we mentioned that the furious pace of the news cycle would make impeachment a faint blip as the election approached, and we raised the risk of black swans. The volatility of the White House makes managing geopolitical risks in a profoundly unsettled world less certain, so another black swan could arise.
- **The Democrats.** The pandemic and the political response to the protests over the death of George Floyd and subsequent Black Lives Matter (BLM) demonstrations are raising the specter of a sizeable anyone-but-Trump vote among independents and moderate Republicans. After the White House, the races to watch are in the Senate: A decisive Democratic takeover will signal a fundamental swing in federal policy—on pandemic response, economic stimulus, climate change, taxes, racial justice and inequality, and the workforce of the future. State- and local-level victories will signal the depth of desire for change. After a deregulatory phase under Trump, the business community would be expected if not compelled to play a much larger role in addressing societal problems.
- **November 4, 2020.** Experts predict that a massive vote-by-mail turnout could swamp election offices and delay results for days if not weeks—adding to political uncertainty and tension. In any case, one or both sides will feel aggrieved the day after the election, and whoever is president in 2021 will contend with a polarized Congress and nation. The protests and counterdemonstrations in June point to a more disaffected, angry, and mobilized populace. Will American democracy withstand the stress? ►

Businesses will be expected to play a much larger role in addressing societal problems if the Democrats win key races.

Cold War II: The superpower relationship is quickly going south as economic disengagement in the pandemic takes hold.

Trump has continued his theatrical spectacle of beating up on China in the election runoff—particularly now that his platform of a strong economy has been rendered. The Democrats believe in but have not fleshed out a get-tough strategy for China. While Joe Biden will probably ease tariffs should he take the White House, Beijing should be concerned that Biden’s penchant for international engagement could forge a more unified international geopolitical alignment against China.

President Xi Jinping remains predicated on the notion of China First.

Regardless of who wins, President Xi Jinping remains predicated on the notion of China First. Chinese authorities have become convinced that the US is not a reliable partner and should be countered on every move, despite the economic costs. So, businesses and investors can expect to continue to navigate a volatile and more fraught business environment, including scrutiny of foreign investment, visa and travel restrictions, technology controls, economic sanctions, and other politically driven regulatory interventions.

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

We argued in December that inequality must be added to the risk register in 2020, and the pandemic plus the awareness of racial injustice have multiplied the potential business implications.

Inequality was already viewed as a catalyst for many countries’ political risks, from populism to social unrest, and it will be front and center in the US presidential election. The pandemic has only heightened awareness of inequality—both in terms of health and welfare—and the need for better protections. As we discussed in December, younger cohorts in the US expressed declining enthusiasm for capitalism. In the pandemic, their educational, professional development, and earning opportunities have been curtailed, and BLM activism has called out the systemic social and economic injustices that increasingly are being attributed to capitalism.

Slow and unequal economic recoveries in 2020 and 2021—both within and between countries—will make these issues more visible everywhere. That awareness will also create insecurity that drives anger, blame of others, and a feeling that the system is rigged.

Not even a year has passed since the Business Roundtable (in August 2019) downgraded shareholder primacy in favor of serving a larger set of stakeholders, and the pressure on businesses has greatly escalated because of the pandemic and the BLM activism in the US and many countries around the world. Youths are making it clear that being patient and working through existing institutions are no longer sufficient. Topics such as economic inclusion, diversity in leadership, environmental justice, the gig economy, and automation will also be viewed more skeptically than in the recent past. So far, most ESG (environment, social, and governance) efforts have focused on the *E* (particularly climate), but companies now need to pay much more attention to the *S*.

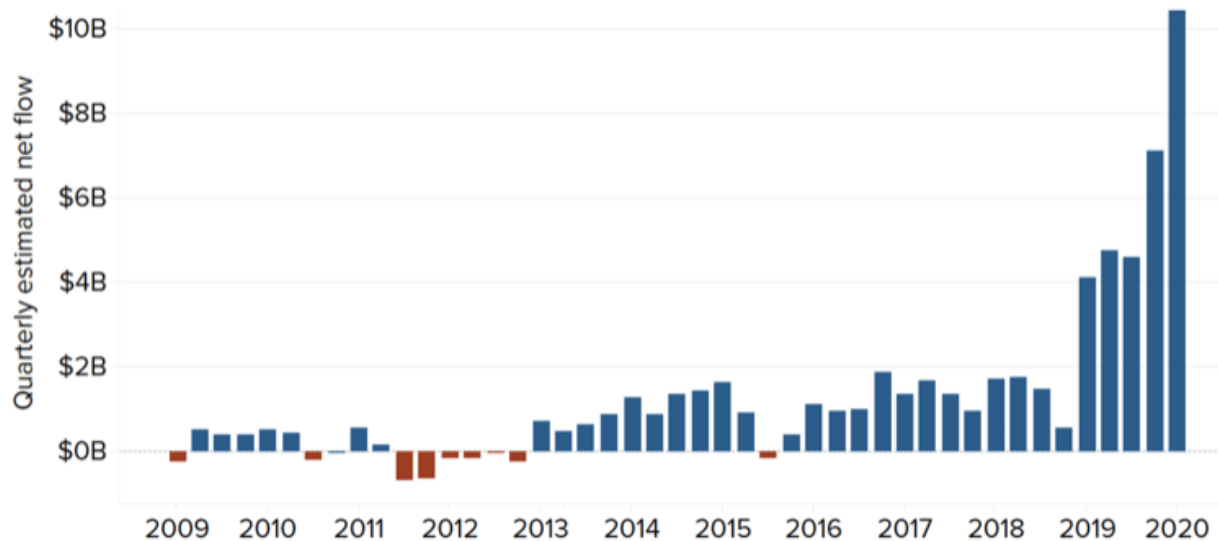
World on fire: Climate change in the pandemic era.

The world is focused on the pandemic, but climate developments and unanticipated phenomena—such as the potential for more zoonotic disease transmission as humans encroach on wildlife habitats—continue to challenge the resilience of societies and economies. Covid has joined climate change in the narrative of a world in crisis and out of control. ►

In the near term, business executives and boards will be focused on assuring health and safety, business continuity, and surviving economic dislocation and uncertainty. But they will remain under tremendous pressure to stay on track if not accelerate their long-term climate goals.

Government-mandated lockdowns in the pandemic have shown how policymakers can force major economic change overnight, and activists will use this experience to advocate for their ambitious structural changes—for example, to constrain the recovery of heavily polluting air travel. Climate activists have also begun aligning their message with the tactics, tone, and issues taken up by BLM activists—namely for environmental justice. Meanwhile, the markets are moving too: ESG initiatives continue to shape investment decisions and create accountability, and ESG-oriented funds saw record capital inflows in the first half of 2020. Green New Deals proposed in Europe and the US have also gained greater currency and urgency as part of economic reboot and stimulus strategies. And if the White House changes hands, Democratic control will radically change the tone on climate, not just in the US but globally.

Capital flows into sustainable funds



Source: Morningstar Direct, as cited by CNBC, June 7.

Other trends and issues we are watching

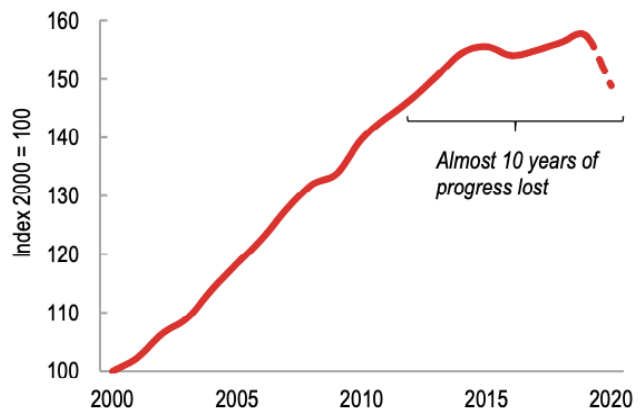
Five regional developments

- **Hong Kong is no longer special or autonomous.** The explosion of civil unrest in the Hong Kong Special Administrative Region was a big surprise of 2019, and after a pandemic-induced pause, Beijing in 2020 mobilized to impose its order ahead of critical local elections in September. The new national security law and its implementing regulations are more assertive than most observers expected. An emerging consensus is that the enclave's potent traditions of open society and the rule of law are quickly coming to an end along with its standing as a regional trade and transactions hub. Expect Hong Kong to become much more of a boutique as the global business community seeks alternative bases in Singapore, Shanghai, and Tokyo, particularly as efforts in play by the UK, Taiwan, Australia, Canada, and the US to extend immigration rights will drain the region of talent and creative energy. ▶

- Is Brussels back?** European Commission President Ursula von der Leyen said in late 2019 that the new EU leadership would take a more muscular role across Europe and abroad, but the Covid lockdowns that banned cross-border travel and the flow of critical medical supplies marked a stunning retreat from European solidarity. A halting, disjointed economic response also raised questions about Europe's ability to recover and the risk of another eurozone financial crisis. In June, the IMF forecasted that the eurozone economies would contract by an average of 10.2% in 2020—with France, Italy, and Spain shrinking nearly 13%. Still, European leaders continue to forge ahead on issues such as digital tax, antitrust measures, and the European Green Deal and bolster the bloc's stance on China and the US. But structural challenges such as fiscal unification, the erosion of democracy, and refugee pressures have been elevated by the pandemic and will threaten to pull the EU apart.
- Have we reached Peak Xi?** While Xi can claim credit for China's remarkable progress in fighting the pandemic and sustaining its economy, the country's brand is not faring nearly as well. Aggressive Wolf Warrior diplomacy, rapidly escalating tensions with Australia and India, swift moves to crush democratic forces in Hong Kong, the Uighur genocide, costly Belt and Road infrastructure projects in highly-indebted nations, and a full-bore global technology dominance strategy are kindling resistance around the world. An issue to watch in 2020 and 2021 is whether the multitude of grievances coalesces into a concerted coalition to contain China.

- Will emerging markets emerge?** In terms of GDP growth, Latin America, the Middle East, India, and Africa have all underperformed in recent years, and the pandemic has reinforced this trend. For many of those markets, the collapse in foreign tourism, capital flight, and the drop in remittances are larger risks than local disruptions due to Covid-19. Expect those emerging markets to lag in the recovery while Asia accelerates. In June, the IMF warned that sub-Saharan countries could see almost a decade of progress on poverty alleviation wiped out in just one year.

Real GDP per capita, sub-Saharan Africa



Source: IMF, June 2020.

- The UK: Back to the cliff.** Prime Minister Boris Johnson closed a deal in January that allowed the UK and EU to avoid a disorderly Brexit, but the interim agreement basically kicked the can for another year. Negotiations since then on the UK's terms of trade with the EU have been fractious and made little progress. With UK-EU economic ties already damaged by the pandemic, a Brexit that defaults to a WTO baseline no longer looks very disruptive to either side. In June, the IMF forecasted the UK's economic contraction at 10.2% in 2020, and the pain will likely continue in 2021 as businesses must either move or adjust to higher costs of trading with the world.

Five business trends

- **Technoskepticism takes hold.** Longview Global Advisors identified the politicization of technology as a top trend in 2019. This risk has intensified in 2020 on a host of fronts, including truth erosion, antitrust, tax, and privacy. Speaking about the pandemic response, Harvard's Ashish Jha on July 17 stated flatly, "Facebook has chosen not to act responsibly" and was "undermining public health on a daily basis." Despite these threats, tech has been a big winner financially in the pandemic (e.g., e-commerce, remote work, streaming entertainment) and has turbocharged efforts to find a Covid cure and vaccine.
- **Health security is the new homeland security.** Over the past 20 years, C-suites and boards had to respond to waves of regulations arising from accounting scandals, the 9/11 terrorist attacks, and the global financial crisis. Should Democrats take control of the US government in 2021, expect a raft of new health security monitoring, reporting, planning, and localization requirements as regulators scramble to prepare for the next pandemic.
- **"Social unions" are mobilizing.** Workers have been organizing and more forcefully pushing social and political agendas from inside the companies they work for. BLM activism has accelerated this phenomenon—especially in the US. Younger workers are angry and no longer willing to tolerate injustice or wait for solutions, and the lessons learned from BLM activism are likely to carry over into other arenas, such as climate, human rights in Hong Kong and China, and corporate support to politicians and parties. Business leaders will have to carefully balance internal and external stakeholder interests.
- **Local is the new global.** We pointed out in December that the era of the borderless firm with a hyperefficient global supply chain was coming to an end, but the pandemic hastened the changes. Instead of prioritizing efficiency at all costs, supply chains will be evaluated more for their resilience. This means more redundancy and warehousing and shorter travel distances. The localization trend also applies to taste: Millennials' preference for small-batch, locally produced foods and consumer goods is expanding to a wider audience. Long-distance travel is looking less attractive too, given awareness of health risks and climate impacts.
- **Will the office come back?** Pundits are arguing that the pandemic signals the demise of the office and work as we have known it. Yet recent analyses by architecture firm Gensler and real estate brokerage CBRE suggest that expectations of the office are not changing that much. Most people still want to go to a place of work several days a week—especially younger workers who seek structure and mentoring and need to establish workplace skills and networks. While working virtually can be very time- and cost-effective, the office will remain a critical nexus for fostering connectivity, creativity, community, and culture. ■

Business leaders will have to balance more assertive internal and external stakeholder interests.