The Long View 2021: Awareness in a Dynamic World

December 17, 2020
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Setting: What is new, what is changing, and what merits attention?

In 2020, operations was strategy, local became the new global, and what was not seen on a screen was often overlooked.

The world's largest economies—China, the EU, and the US—dominated business consciousness, in part because their policymakers had the greatest latitude for action on the pandemic fight, and so much was at risk. Economic forecasts proved unreliable, and the inability to travel or even go to the office constrained one's sense of awareness, nuance, and context. Notable geopolitical developments, such as Beijing's Hong Kong crackdown and climate-change impacts, fell off the radar or were just too much to deal with in a world of everything-fatigue.

Five global themes to watch:

- Many inequalities
- Submerging markets
- The Great Disturbance
- Surging innovation
- ESG is not sufficient

Four geostrategic issues to watch:

- No honeymoon in the US
- Big China
- Cold War II
- Europe First

The continuing battle to arrest the spread of COVID-19, spur economic recovery, and mitigate the collateral damage will make the business, social, and political narrative in 2021 very predictable. Near-term risk management will again dominate for the first part of the year. In an optimistic scenario of the pandemic, its attendant risks will wane in advanced economies by summer, creating an opportunity for longer-term perspective and greater global awareness to return. The mood at the end of the year could be much different than at the beginning. Yet, low-probability but high-impact events (cyberwar, COVID-21) could threaten outlooks and stability again because of the world's fragile state.

Given the unusual course of the past year, many geostrategic themes Longview identified for 2020 remain equally or more pressing for 2021: political risk in the US, the rise of China and geostrategic rebalancing, inequality and social justice, climate change and sustainability, and innovation, especially digital transformation. And countries' recovery trajectories and innovation's effects on work and cities will unfold for years beyond 2021.

The pandemic and the associated economic and social shocks have accelerated many preexisting trends—what the IMF in April labeled "The Great Acceleration." But we also see the pandemic as the Great Disturbance—like a wildfire, it is destroying while setting the stage for regeneration. Given this crowded and dynamic setting, this outlook offers an assessment of key themes and signposts to watch in 2021 and beyond. Throughout, it will be important to ask, What is new? What is staying the same? And, What merits more attention? ▶

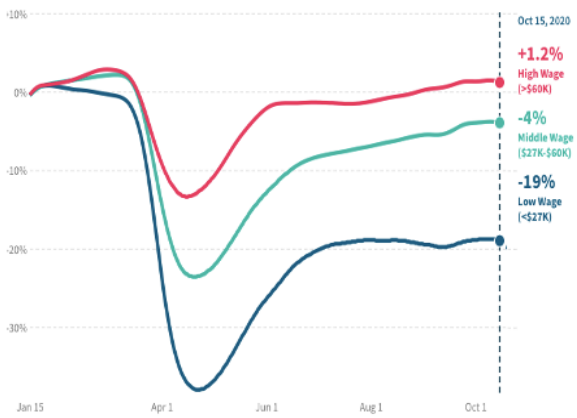
Five global themes to watch

Many inequalities: The world is not in this together.

A year ago, we added inequality to the risk register for 2020. The pandemic plus the heightened awareness of injustices along race (especially in the US), gender, and economic strata will elevate this risk in 2021. **Business leaders will need to look past headlines about near-term recovery and confront the many long-term inequalities that have been accentuated by the pandemic.**

While the coronavirus is global, its impacts have varied greatly by geography, sector, race, age, and income. In the US, the educational disparity between students in rich and poor neighborhoods has grown, as has income disparity between high- and low-wage workers. The pandemic-induced recession for high-wage workers had largely ended by the beginning of October, but employment for low-wage workers plateaued in July and remained down by almost 20% in mid-October (see left chart). Also, large firms have generally fared much better than small ones that lack access to capital: US small-business revenues at the end of November were down one-third from pre-pandemic levels (see right chart), while the S&P 500 stock index was up 11% over the same period.

Unemployment in the US



Small business revenues in the US

Source: Tracktherecovery.org, December 2020.

Inequality is a societal problem, but it is very business relevant. US business leaders are expected to take a stand on social issues (see graphic below), according to a December 2020 survey by JUST Capital, even though populist backlashes are biting at free-market capitalism and liberal democracy and threatening the foundations on which business thrives. Amid worker's frustrations with income stagnation, job insecurity, and lack of opportunity in many advanced economies, politicians on the right and the left have blamed capitalism, free markets, the establishment, minorities, and the rule of law. ▶

CEOs' RESPONSIBILITY TO TAKE A STAND ON SOCIAL ISSUES	2020	2019	2018
Do have a responsibility to take a stand	68% ⬆	59%	63%
Do not have a responsibility to take a stand	32% ⬇	40%	36%

Source: JUST Capital, December 2020.

Inequality has also meant that vulnerable communities around the world have been hit harder by the pandemic. In India, over one-third of micro, small, and medium enterprises surveyed by the All India Manufacturers' Organization in June indicated that they saw little chance of surviving pandemic lockdown despite government support programs—what the association decried as "the mass destruction of business." And where schools have reopened in Africa, girls are less likely to return than boys. In June, the IMF warned that sub-Saharan African countries could see almost a decade of poverty-alleviation progress wiped out in just one year.

Figures from the IMF provide a stark illustration of how the world is not in the pandemic fight together: In 2020, advanced-economy governments spent an average of 20% of GDP on pandemic response, emerging markets spent 6%, and low-income countries spent just 2% of their much smaller GDPs. Acquiring vaccines and attaining herd immunity could take many emerging markets until 2024 given current procurement commitments, according to Duke University researchers.

Submerging markets: The economic fallout of the pandemic will vary.

Governments around the world in 2020 took major steps to contain the fallout from the pandemic, but the willingness and ability of many to sustain support where needed will wane in 2021. **Given countries' variation in the severity of the pandemic and expectations for recovery, business leaders should reassess the trajectory of key markets and recalibrate strategy in 2021.**

According to the IMF, GDP will fall by 10% or more in 2020 for India, Iraq, Argentina, Peru, Ecuador, France, Italy, Spain, and Greece. The UK economy is expected to shrink by 9.8%—and that presumes a smooth Brexit. Pre-pandemic output levels are not expected until 2022 for the US, Turkey, Russia, and Saudi Arabia, according to the consultancy FrontierView (see chart below). Given this, 2021 will largely be a year of stabilization.

Many major markets may experience economic detours lasting four or more years. The key determinants of a country's outlook include its economic and governance fundamentals going into the crisis (Does the country have a reputation for sound economic policy?), economic structure (Does the economy depend on vulnerable sectors such as tourism?), and access to capital and debt financing (Can the country spend its way out of the crisis?), as well as the relative severity of its disease burden and the effectiveness of its policy response. ▶

Expected year of economic recovery (GDP ≥ 2019)

2020	2021	2022	2023	2024+
• China	• Indonesia	• Angola	• Brazil	• Algeria
• Egypt	• Kazakhstan	• Bangladesh	• Chile	• Argentina
• Kenya	• Malaysia	• Colombia	• Germany	• Ecuador
• Senegal	• South Korea	• Czech Republic	• Japan	• France
• Vietnam		• Hungary	• Peru	• Greece
		• India	• Canada	• Italy
		• Nigeria		• Mexico
		• Romania		• South Africa
		• Russia		• Spain
		• Saudi Arabia		• United Kingdom
		• Slovakia		
		• Thailand		
		• Turkey		
		• UAE		
		• Ukraine		
		• United States		

Source: FrontierView, November 2020.

GDP growth in Latin America, the Middle East, India, and Africa was underperforming going into the pandemic (we have wondered for the last few years, Will emerging markets emerge?) and the pandemic has only intensified this question for many countries. But on a positive note, the pandemic has not hit many EMs as hard as expected—a phenomenon not well-understood by health experts. Still, capital flight, the collapse in international tourism and business travel, and weak commodity prices have produced powerful external shocks.

Mexico's recent economic performance illustrates why business leaders will need to reassess their regional strategies. The country's growth has historically tracked very closely that of the US, given the deep cross-border integration, but its trajectory appears to be diverging. In October, the IMF forecasted that Mexico's economy will shrink by 9% in 2020 compared with 4.3% for the US. The central government's confused COVID response, ambivalence to FDI, penetration of governing institutions by criminal groups, and growing security problems have undermined business confidence and thwarted the potential lift from the US-Mexico-Canada Agreement and the trend in supply chain localization. With such poor fundamentals, Mexico may not recover from the pandemic before 2024. By contrast, Vietnam, which has controlled COVID and is attracting manufacturing from China, is expecting to grow by 1.6% in 2020.

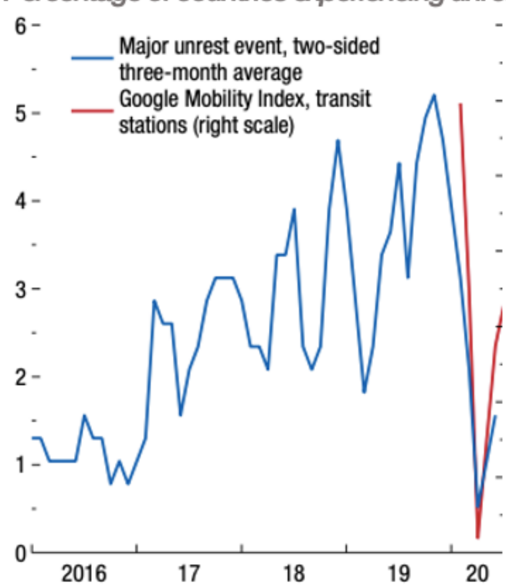
The Great Disturbance: Social and political risks will rise.

During the first part of the year, social unrest globally subsided as a result of lockdowns, social distancing, and curtailed mobility (see chart below). **While the tide of COVID may ebb in 2021, despair and slow and uneven recoveries are likely to result in spikes in social and political risks throughout the year and beyond.**

Social unrest had been rising around the world in the years before the pandemic, in part because of the inequalities discussed above as well as the influence of social media. In the US, the catalyzation and intensity of the Black Lives Matter protests that started in late May was partially a function of acute human and economic shocks from the pandemic stacked on long-term racial grievances. The pandemic also helped catalyze protests in Belarus, Peru, and Cuba. Meanwhile, many governments—from Hungary to Egypt and India—have used the pretext of the pandemic to amass new powers to clamp down on the opposition and businesses, creating the potential for new resentments.

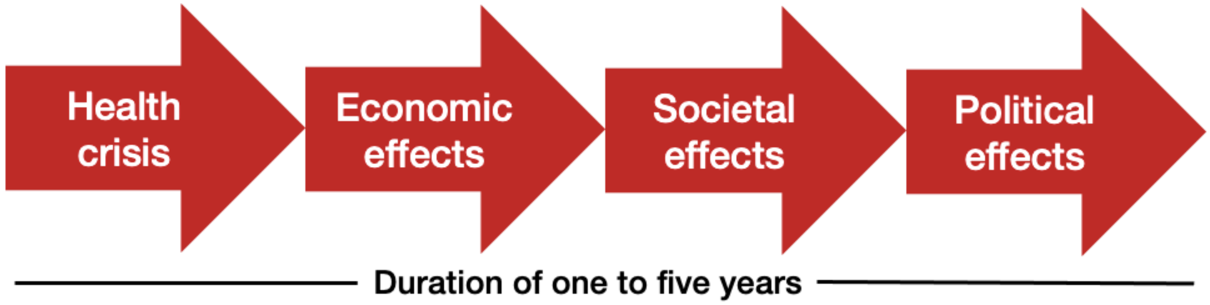
Slower-moving risk cascades could also emerge over the next five or more years. After the 2008–2009 global financial crisis, the eurozone debt crisis spilled out and almost broke the bloc. Likewise, the 2016 votes for Brexit and President Trump, and the yellow vest movement that erupted in France in 2018—as well as the rise of anti-globalism, extremism, and populism more broadly—can all be seen as resulting from simmering frustrations over limited economic opportunity and rising inequality after the financial crisis. Indeed, IMF researchers have found a 20% increase in the likelihood of social unrest in the five years following a pandemic. ▶

Percentage of countries experiencing unrest



Source: IMF, World Economic Outlook, October 2020.

Risk and opportunity cascade



Social unrest is difficult to predict, especially since we are in the middle of the pandemic. With few elections to mobilize people in 2021, it will be important to look more closely at governance trends and ask, Is a country on the right track? Are assistance programs helping small businesses and households? Wall Street–Main Street divides are a huge political risk: Massive liquidity provided by central bankers has led to unparalleled optimism in the markets and gains for the wealthy, but this cheer is untethered to economic fundamentals and social realities on the ground.

As governments face multiple challenges, attention will naturally gravitate to the private sector—most obviously for tax revenue but also to help solve problems. In the EU, this shift is a driver of the OECD-sponsored efforts to find agreement on digital services taxation and clamp down on the practice of shifting profits to low-tax jurisdictions.

The surge in innovation will unfold for years.

As companies adapted to the pandemic, innovation accelerated dramatically. An October McKinsey survey found that in 1H20, COVID sped up the rate of digitalization of products and services around the world by as much as 10 years. The leaps in e-commerce, telehealth, the care of COVID patients, and working remotely in particular, were immense. **Looking to 2021 and beyond, it will be important to ask, in what arenas will fast-paced innovation continue, and where might it have been only a short-term exception?**

As 2020 comes to a close, the medical research community is optimistic about many of the 200-plus COVID vaccine candidates coursing through R&D pipelines. If successful, public health projects, like the COVAX initiative and Operation Warp Speed, will demonstrate the potential of new collaborative approaches for tackling other challenges. And a successful vaccine rollout will boost innovation in the biopharmaceuticals sector, not to mention the value of science more broadly. Insights will also be harvested and applied to adjacent fields, such as agriculture, chemicals, fuels, and materials.

The economic destruction of the pandemic has also been a catalyst, as indicated in the surge in address changes and new business formations in the US in 2020 (see chart at right). These may only be signs of desperation, but labor mobility and entrepreneurship are also indicators of economic dynamism. Also, loose monetary policy has generated large piles of cash for venture capitalists to deploy on what are hoped to be breakthrough companies in three to five years. In this scenario, the 2020s could be a new Jazz Age of invention, dynamism, and better living. ▶

*High-propensity new business formations in the US**

**Likely to lead to the creation of a firm and employment.*
Source: *Economist*, October 2020.

Or is the enthusiasm for the surge of innovation overwrought? Many changes could be better characterized as good incident response rather than innovation, so why do so many companies like to claim they are agile but require a catastrophe to push themselves into the future? After the tumult of 2020, will workers be able to sustain the fast past of change, or will they want to slow down in 2021? Will places that experienced less disruption—Taiwan, Singapore, New Zealand, China, and other emerging markets—stick with doing things the old way?

The future of the office and places

When white-collar companies instituted remote work and ceased business travel, according to the design firm Gensler, people quickly adjusted to working from home (often while schooling children) and increasingly appreciated remote-work benefits such as its convenience and flexible scheduling; suitability for focus work; greater access to natural light, the outdoors, and fresh air; and lower cost.

In the post-pandemic workplace, professionals will want more options for when, where, and how they work, and that will press companies to update their offices to provide enhanced meeting and collaboration spaces, more private settings, and better programming to meet workers' higher expectations. The purely administrative office may be obsolete, and the new informality in corporate culture and communications will persist.

The future of the office also affects the future of mobility. Meetings and events will have to be more compelling, and business travel will be slow to recover. Location-neutral remote work will change the geography of development: Smaller cities and towns—including vacation destinations—are poised to become rising employment hubs. And spending on home offices will surge as companies become more global while their people become more local.

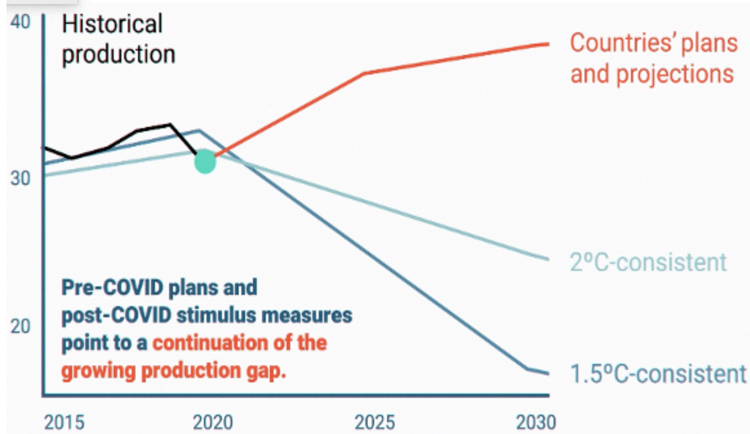
ESG is material but not sufficient.

Environmental, social, and governance–oriented funds saw record capital inflows in 2020, and in Europe, ESG assets under management in 2Q20 grew by 10% compared against 1.6% for the entire fund universe. Over the last year, the Big Four accounting firms and leading ESG standard-setting organizations collaborated to produce a uniform set of global reporting rules. President-elect Joe Biden's selection of the head of BlackRock's sustainable investing group as his top economic advisor suggests that ESG will become a US policy priority. **These developments will move ESG into the mainstream in 2021, yet businesses will be expected to do more to achieve sustainability, inclusion, and good governance.**

Moving money into a fund that scores higher than others on sustainability or inclusiveness does not necessarily translate into rapid shifts in companies' operations. Moreover, for many ESG advocates, the primary goal of adopting ESG standards is to reduce the risks to the business (e.g., floods, class-action lawsuits), while improving the state of the world is secondary at best.

According to the *2020 Production Gap Report*, published in November, business and policy plans indicate that fossil fuel output is slated to increase significantly—not decrease as called for in the 2016 Paris Agreement (see chart, next page). While ESG and other market-based mechanisms—like emissions offsets and trading—are critical for resetting the incentive structure guiding behavior, younger cohorts are particularly angry about climate trends and increasingly express skepticism in polling about free-market capitalism. ▶

Global fossil fuel production (gigatons of CO2/year)



Source: Production Gap Report, December 2020.

What ESG (and the parallel campaign for stakeholder capitalism) has created is a progressive paradox: Companies that commit to doing better are often held to a higher standard in the near term. Inequality and the newfound push for racial justice in the US will make topics such as environmental justice; economic inclusion and fairness; diversity in companies, leadership, and representation; and redressing negative impacts of the gig economy and innovation more pointed in 2021. And tech firms, which so far have largely gotten a pass on ESG, will find themselves especially exposed given the sharp rise in technoskepticism.

So, while ESG develops, businesses should also expect calls for more regulatory hammers such as bans and quotas—which, while often onerous, are resolute and get the job done. To this point, the government of Denmark, the EU's largest oil producer, in early December 2020 announced that it would end all new oil and gas exploration in the North Sea as part of its commitment to ending fossil fuel reliance by 2050. Around the same time, Nasdaq proposed new boardroom diversity and inclusion standards for its 3,000 listed companies that would require two directors who are female, represent a racial minority, or are LGBTQ.

Four geostrategic issues to watch

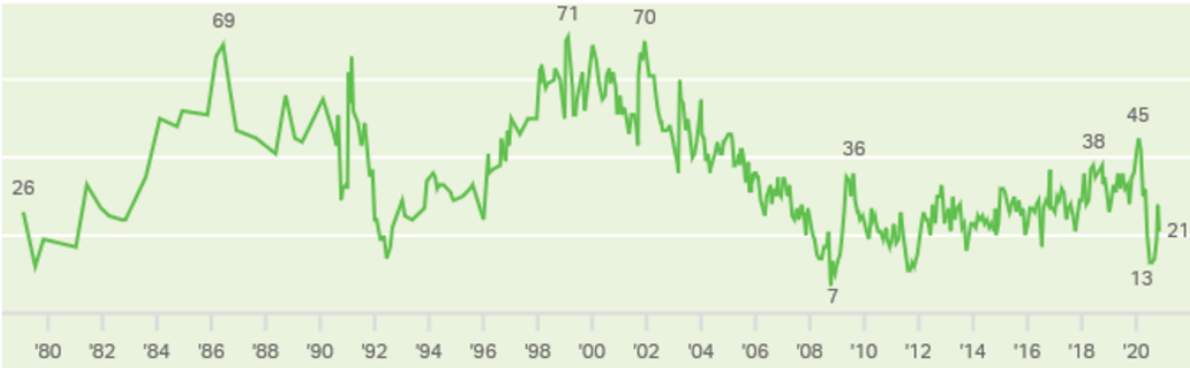
No honeymoon: US political risks will persist.

Last year, we predicted that one or both sides will feel aggrieved after the election and whoever is president in 2021 will contend with a polarized Congress and nation. **Business leaders should plan for sustained political tensions and policy gridlock in 2021. Political violence will likely increase.**

While the record voter turnout is being hailed as a victory for democracy, it also points to high levels of mobilization over what is essentially a cultural war of individual and national identity. Much of the population would like politics to recede into the background, but most people also think that the country is still on the wrong track after the election (see chart, next page). Many partisans on the right and the left still want to fight, given the huge issues at hand (e.g., COVID, recovery strategy, racial injustice) and continuing agitation at the extremes (i.e., QAnon, militias, antifa). Calls by Biden for bipartisanship and "normalcy" smack of being told to simmer down without addressing the intensity of emotions and cultural and policy issues at play.

Biden's priorities and the tone he sets will matter, but he also has unprecedented governance challenges that will make 2021 a very unusual year for a new administration. These include restaffing the government with professionals, resetting norms of executive power while seeking to undo much of Trump's agenda, and arresting the decline in trust in government and the rule of law. But perhaps most importantly, he will be persistently dogged by challenges on the right to his legitimacy and authority—including by Trump, who has made it clear that he intends to maintain his grip on the political narrative and the GOP. ▶

Satisfaction with the way things are going in the US (%)



Source: Gallup, December 2020.

Even though Congress put aside partisanship in spring 2020 to enact three large deficit-funded pandemic rescue packages, with the White House changing hands, deficit hawks are taking flight and gridlock looms. History may repeat itself: A slow recovery could lead to a backlash in the 2022 midterm elections and a highly destabilizing general election in 2024. At the extremes, arms and ammunition sales surged in the pandemic lockdowns and after racial unrest this year. Many armed groups have moved out of isolation and become more organized and visible while truth decay and groupthink have been reinforced by demagoguery and social media.

Meanwhile, the Biden administration will seek to reset strategic relationships abroad, but foreign leaders will be looking at the persistent political risk in the US and doubting whether the tide of America First, claims of election fraud, and polarization was an aberration.

China: Bigger than ever.

China's success in containing COVID enabled its economy to recover much faster than the rest of the world, and Beijing is aiming for 2% growth for 2020 and around 5% for 2021. Before the pandemic, China had the largest market for many goods—from transport to communications and electricity (see table, next page). **In 2021, China will present even more of an outsized business and investment destination—especially compared to other emerging markets—and this will accelerate the "in-China-for-China" trend in business strategy.**

Several developments bear watching in 2021. The most important is President Xi Jinping's Dual Circulation Strategy. The DCS positions China's future prosperity on domestic supply and demand, rather than external trade and investment, to cushion against external economic shocks from the global slowdown in trade and deteriorating relations with the West. The DCS is expected to be endorsed in March when the 14th Five-Year Plan is approved. The exact implications for foreign businesses are uncertain—an important strategy question in 2021 as the plan rolls out.

The second development is the liberalization of the financial services market. In line with boosting the domestic market under the DCS, Beijing aims to provide more high-quality and diversified financial products for Chinese investors; attract foreign investment and build China's capital markets to sustain growth ambitions; and limit Washington's ability to decouple. FDI into China totaled $115 billion from January to October 2020, a 6.4% year-over-year increase, and an estimated $400 billion in foreign portfolio investment will enter China over the next two to three years in equity and fixed-income-securities, according to a US-China Economic and Security Review Commission study. ▶

Key Data Points	China	EU	US
Population (2020)	1.4 billion	446 million	331 million
Gross national income per capita (PPP, 2019)	$16,740	$46,473	$65,880
Auto sales (2019)	25.8 million	15.8 million	17.0 million
Smartphone users (2020)	882 million	379 million	276 million
Beef and veal consumption (2019)	8.8 MMT	7.9 MMT	12.4 MMT
Mobile point-of-sale payments (2020 projection)	$1,144 billion	$372 billion	$244 billion
Professionally managed investment real estate market (2019)	$582 billion	$2,748 trillion	$3,418 trillion
Debt securities outstanding (2Q20)	$15.7 trillion	$21 trillion	$45.6 trillion
Renewable energy capacity (2019)	758,626 MW	497,267 MW	264,504 MW

Sources: World Bank, CNN, CNBC, Eurostat, Statista, USDA, MSCI, Energy Information Agency, Bank for International Settlements,, Int'l Renewable Energy Assoc., and Longview calculations.

The third development is technology innovation. Amid rising geopolitical tensions with the West, Beijing's drive for tech self-sufficiency and leadership has intensified, and this is evident in the DCS. One tactic is massive spending on the procurement and promotion of Chinese equipment, such as Huawei 5G mobile networks. A second is the lavish support of technology champions, such as Alibaba in the field of artificial intelligence. But a lot of Chinese innovation is market led. The widespread use of Alipay and WeChat Pay is responsible for China's dominance in digital payments. Shanghai's Star Market, founded in 2019 as an alternative to Nasdaq and the Hong Kong Stock Exchange, has seen frothy activity in 2020 as domestic and foreign investors have piled into Chinese tech ventures and IPOs.

Finally, the Regional Comprehensive Economic Partnership trade deal signed in November is weighted with symbolism. It encompasses 15 nations, 2.2 billion people, and $26 trillion combined GDP. (In comparison, US-Mexico-Canada Agreement covers 492 million people and $22 trillion of output.) The RCEP is a step forward for investment and trade liberalization in the Asia-Pacific region, and it gives Beijing more influence in shaping those rules and norms and a platform to demonstrate its leadership globally.

As China seeks to deepen its fixed-income markets, underlying debt problems cannot be ignored. Because of COVID lockdown measures, local government debt will surge by 22% in 2020, according to the Ministry of Finance, and local governments' debt ratio is approaching 100% of the local economic product. Two recent high-profile corporate defaults—by Huachen Automotive, parent of BMW's China joint venture partner, and Tsinghua Unigroup, a key player in China's semiconductor race—illustrate the problem. These defaults could be seen as a sign of policymakers' willingness to set an example of how the market should be working. But the defaults also reveal how opaque and risky the market is: Both Huachen and Tsinghua received the highest (triple-A) rating from major Chinese credit rating agencies—partially on an assumption of government backing. ▶

Can a company win both in China and the West?

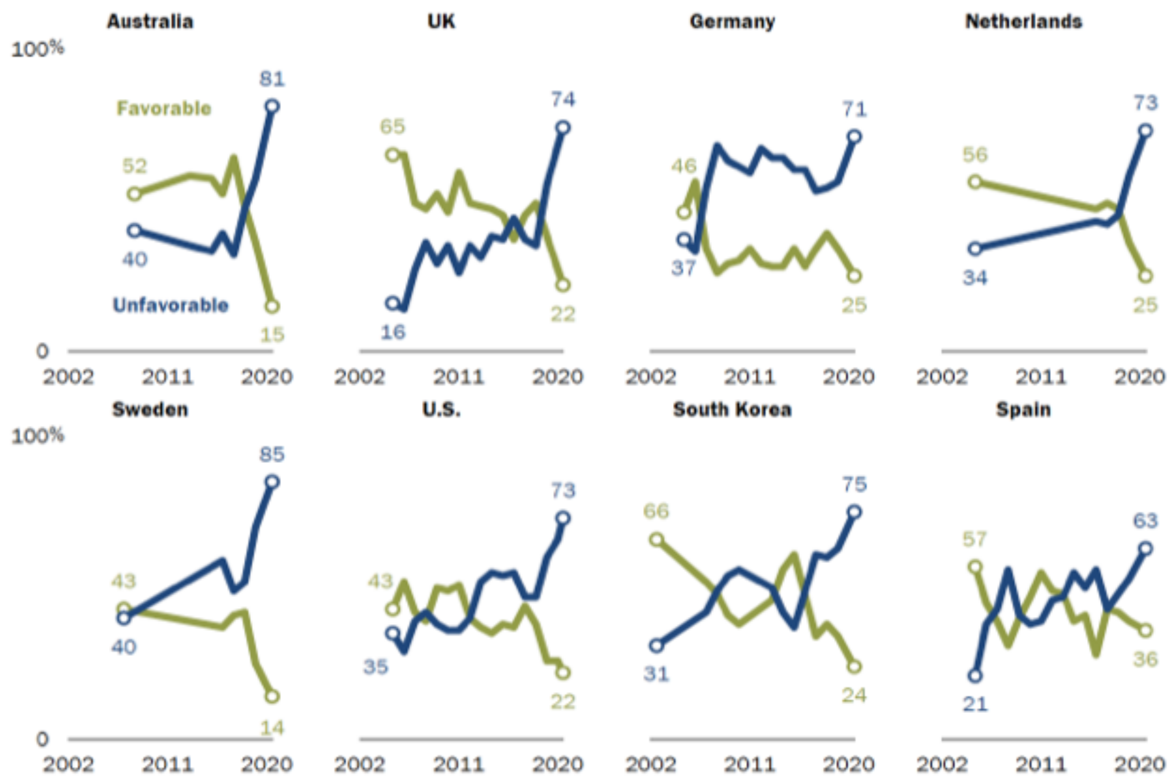
As foreign multinationals seek to capitalize on the China market, geopolitical risks are rising, and one important question stands out: How can foreign businesses support Beijing's growth and innovation ambitions without running afoul of political and brand risks in other markets?

Cold War II goes global.

President Trump will be remembered for his confrontational stance toward Beijing, but China's huge economic and geopolitical weight is also forcing rebalancing efforts by many other countries, and China's emergence from the pandemic as an even more formidable superpower will accelerate this trend. **In 2021, global companies and investors will have to navigate a world that is increasingly divided into two spheres with different technology platforms, security requirements, standards, and norms. Highly nuanced strategies will be required to retain a political license to operate freely in both.**

China's rightful pride in combatting COVID and restoring its economy fueled nationalist hubris. While Beijing has offered gifts of PPE and vaccines and formalized the RCEP, its assertive wolf-warrior testiness deepened in 2020, resulting in China being "diplomatically diminished" in Asia according to Australia's Lowy Institute. Remarkably, China managed to upset relatively good relations with Vietnam, Australia, the EU, the UK, Japan, Italy, and Canada, and an October poll by the Pew Research Center found sharply deteriorating views of China around the world (see charts below).

Views of China around the world



Source: Pew Research Center, October 2020.

The UK, the EU, Japan, Australia, Israel, and Canada, among others, are increasingly using national security concerns as a litmus test for approving Chinese investments. In the wake of border clashes in 2020, India put nearly 140 Chinese investment proposals worth an estimated $1.75 billion on hold. Also, the increased awareness of supply-chain dependence on China that has emerged from the pandemic has prompted Japan, South Korea, and Taiwan to create incentives for reshoring production. And the EU, in a bid to find common ground with the incoming Biden administration, is proposing a new transatlantic "coalition of like-minded democracies" to coordinate on technology policy, regulation, and standards to counter a rising China. ▶

Meanwhile, Biden largely supports a get-tough approach on China. The new administration will work to improve the tone of the relationship, establish greater predictability, and pursue cooperation in areas such as health, climate, and the environment, but given pressures from both the left and the right, it will not unilaterally dismantle the Trump administration's trade, investment, and technology policies. For example, China is not meeting its Phase I commitments agreed to in December 2019, but they are fully enforceable, and the Biden administration will have to decide what steps to take to ease the rancor with Beijing while not looking weak in China or at home.

Europe First: Does the pandemic make or break Europe?

European Commission President Ursula von der Leyen articulated a Europe First stance when she took office in late 2019, but then the EU's early COVID management demonstrated a marked retreat from European solidarity, with bans on cross-border travel and movement of critical medical supplies. As 2020 went on, though, the EU looked more resolute while the US was divided and in disarray. The EU was on our radar in 2020, and it stays there for 2021: **Multinationals should pay attention to the Europe First agenda and its prospects for success.**

The July agreement of the 27 member-state leaders to jointly borrow €750 billion on capital markets for pandemic recovery grants and loans to distressed countries such as Italy and Spain signaled uniformity in the face of a global emergency and reemergent Franco-German leadership on European integration and solidarity. Although it is temporary, the issuance set a precedent that will move the EU toward greater fiscal union, and the show of unity contrasts with the doubts, dithering, and division of the euro crisis about a decade ago.

Several points of the agreement will bear watching in 2021. First, will the funds be sufficient to offset the damage from the 2020/21 winter COVID surge? The European economy is heavily dependent on bank lending, and non-performing loans, which were already a drag on the banking system, are slated to rise in 2021 as government aid winds down. Brussels is looking for ways to cover NPLs to avoid a credit crunch that could threaten the recovery. If more fiscal support is needed, will Europe's fiscal hawks remain at bay? The selection of Chancellor Angela Merkel's successor as CDU party leader in January will be a signpost to watch.

EU leaders in December 2020 also agreed to a €2 trillion, seven-year EU budget that allocates one-third of the funds to climate and other green initiatives, and the leaders have agreed to significantly accelerate cuts in greenhouse gas emissions. For the first time, the budget includes money for common defense programs. In another first, the leaders also authorized the EU to generate its own revenue beyond member state contributions, which could include a carbon tax, a digital services tax, and a financial transaction tax. These moves will test von der Leyen's 2019 pledge that the EU would play a larger "geopolitical" role vis-a-vis China and the US: A carbon tax could hit imports from China, and a digital services tax would not be welcomed by the Biden administration when both sides are aiming to improve the bilateral relationship.

According to the EU's autumn forecast, GDP across the bloc is expected to fall by 7.4% in 2020, and it is not expected to recover to 2019 levels until early 2023—though several countries will be much farther behind. EU citizens have strongly supported Brussels' handling of the pandemic and economic hardship, and Brussels has taken a decisive role in securing over 1.3 billion vaccine doses—enough for all EU residents and many more. This will build goodwill in 2021. But what will the three-to-five-year economic detour mean for political sentiment within countries and across the bloc? Will the decisive steps taken during the crisis look like a good deal down the road? This is not just an EU story: The US and the UK will be used as measuring sticks. ■