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Monday 8th June: 3:00pm – 3:45pm CEST:

## Implications of the Pandemic for the Global Economy and Geopolitics

***Martin Wolf***, Chief Economics Commentator, *The Financial Times*

***Moderator: Peter Freedman***, *The Consumer Goods Forum*

Martin began the session by providing an overview of COVID-19 and its implications for the world. He divided his remarks into what is happening with the pandemic now and what the world might look like post-COVID-19.

He said it's causing a hell of a recession and we expect it to be the worst crisis since the 1930s, and maybe even worse. This closing down of business hasn't been witnessed before. It's also a much more global downturn than seen in 2008/2009. This is because of the coronavirus' impact on China, whereas they pulled us through in 2008/2009. He said, there is no doubt we will face more fiscal debt than ever before. He noted it is stopping movement - impacting the movement of goods and international travel - and causing inequality - old people versus young; poor vs rich; and those who can work from home and those who can't.

However, on the future, he said we don't know yet if there will be a cure or vaccine. We do not know if there will be further waves of infection and we don't know when people can return to normal work and travel patterns. This means we don't know the shape of the recovery, he said. It's unlikely to be linear, and it's unlikely to match the decline. It's likely there will be a permanent decline in production and long-term scarring. We don't know how permanent the change in behaviours will be.

We also don't know how governments will handle the fiscal debt and deficits. They could park the debts. Governments have to choose to waive taxes or cut spending. The former seems more likely. Technology has also seen an acceleration, as people work from home, but, he said, I don't see this replacing travel entirely. This could also impact the acceleration of online sales and the future of globalisation could see a slowdown - maybe a permanent reversal - of international trade in "real stuff" and an increase in "virtual stuff".

Martin then explored one of the other known unknowns: will COVID-19 be seen as a fundamental transformation of the world or just an accelerator? Martin believes it's the latter. Popularisation and the shift to online, etc, were already taking place. Politics are also being impacted. Will China-US relations



continue to deteriorate? Is multilateral cooperation going to survive? How nationalistic will we become? COVID-19 has brought the State back, he said, as governments close borders and think of their own people. The right-nationalists are benefiting at the moment.

How big is the tech wave going to be? The further rise of technology may go on, but there could also be a backlash, Martin commented. As for the sustainability agenda, is it really the great opportunity that will trigger real change, like those seen after WWII? The honest answer is we simply don't know at the moment, he concluded.

**Peter then asked Martin some follow up questions:**

1. *What is your advice for the consumer goods industry in regards to topics like sustainability?*

Martin said he hopes we seize this opportunity. When there is a huge shock to society, what matters in terms of the response is whether what you get are the politics of fear or hope. It's pretty clear that politicians around the world are currently doing both, and it's just a matter of who wins. Society is divided. After WWI, fear won, and it led to WWII. After WWI, hope won. He said we need sensible and sound leadership. Business leadership is also crucial here. Some leaders have been great; some have been terrible. Do we create a better world or do we create a worse one? I don't know the answer yet, Martin concluded.

2. *What's your observation on where the younger generation is going?*

Martin said the crisis has affected these generations pretty badly. In 2008/2009, the crisis heavily impacted millennials, and this is the second big shock for them. They have a reason to feel aggrieved. Will they continue with their aspirations or retreat a little? It's hard to predict in a linear way, he said. People need to come forward with solutions. Generations are not homogeneous; there are bigger divides in them than between them. For the first time in world history, half of them (in the UK) have been to university. This has never happened before. This experience makes a huge difference to their personalities and aspirations. He believes the division within this generation - those who went to university vs those who are unskilled with limited opportunities - will be more prevalent. When I went to university, he said, only 5% of people went.

3. *Who are the winners and losers, economically?*

In the pandemic, the businesses that depend on face-to-face interactions - workers or consumers - are the most vulnerable. Hotels, theatres, restaurants and airlines, are just some examples of those in real trouble. There is a long list of losers. This list won't go away quickly. It's structural, not temporary. The winners are those who can operate in the virtual space, with one important



qualification: there is an enormous decline in economic activity, so some expenditures like advertising have disappeared. For example, the FT has more readers than ever, but advertising has taken a hit. Even google has lost ad revenue. There are few absolute winners and success is relative to a business' ability to transform for the virtual world.

4. *Why does globalisation work? Should we reverse it a little? How should a chief executive think of his supply chain in spite of these conflicting concerns?*

If you're a CEO, you have two questions: what is the lesson of this crisis for the resilience of my business and how much can I afford to spend? What's the trade-off? Just because this has happened, it doesn't mean it will happen the same again. The lesson from this is quite general. You should structure yourself to be more resilient. Localisation is one possible way, but I believe, he said, it is really about diversification and redundancy costs. Each business has to trade off the costs. The least vulnerable supply chain is not necessarily the one closest to home. Local doesn't mean safe.

CEOs also need to think about how policy makers affect what they can do, he commented. Governments might say they want local supply chains, and business leaders need to take this into consideration, irrespective of their own beliefs. An intelligent business leader thinks about both points.

5. *Thinking of policy interventions: can we expect to see governments intervening to support business more?*

In the short-run, absolutely. Long-term, we just don't know yet, he said. In the developed world, we have had a massive increase in State-led interventions in response to a major shock. Governments have done what they should do; supporting local business and populations. They have intervened massively in financial markets. In addition, there has been quite a lot of protectionism in the health sector, for example, and all this will go on for some time. Governments want to see stability, and this could take years, not months. The shock is just too big.

After this is over, will it mean a permanent increase in State-led interventions? Martin said we can see some positive responses to State-led actions. However, there isn't much of a free market - it's nationalistic, just look at Trump and Johnson. Further, international trade is being impacted by the breakdown in relationships with China and the pretty bad relationships between the US and Europe. These are the great players - 2/3s of real world output. It's very difficult to think of us going back entirely, he said.

6. *What's your call for the US election? How will this play out - US and China? US and Europe? Is Biden the man?*



Martin said he follows the polls and can do no more than that. These suggest either outcome is possible; Biden has a good chance, but November is a long way away. He said he wouldn't rule Trump out though. Biden will be more rational and disciplined, but the fundamental reversal is bi-partisan. It's not just Trump. The US has been trying to contain China for some time. China is a strategic rival and threat and we can't see that feeling in America going away. In economics, the US and Europe are structurally shifting and this is very important for our future.

7. *With regards to the acceleration of technology: how should we think about more developing countries?*

They've been very badly affected. He said he expects several countries to default. Longer-term, if protectionism continues, export countries will be impacted and capital flows may not come back. On the tech side, there is already a strongly felt view that technology was beginning to undermine the advantage some countries had with regards to labour markets. However, tech can also benefit them to provide certain services and products. That said, AI could impact both developed and developing countries.

8. *Are there any developing countries that could be winners?*

Unlikely, Martin said. Vietnam has done well, and they could come out of it better. Bangladesh will be interesting to watch regarding its export business, while India looks like it is losing its way badly. The East Asians are the best organised and the next 10-20 years will continue this trend. I would bet on Asia, he said.

9. *You spoke at the Global Summit in Berlin three years ago: three years on, is Brexit any better an idea?*

Two things to note. First, he said, my concern about populism hasn't gone. Politicians who dismiss experts create bad policies. Second, the Brexit story looks like a no-deal Brexit still and will further increase the damage to the UK. It was a bad idea then, and the current global situation now makes it an even worse idea.