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What the experts said

The View from the C-Suite Geopolitical & Economic Challenges

July 9, 2020 Global Horizons Virtual webcast

How are businesses reassessing and responding to the global economic and business landscape? Three noted thought leaders weigh in.

Panelists



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Webcast: The View from the C-Suite – Geopolitical and Economic Challenges

These excerpts from the webcast have been condensed and lightly edited.

How has the COVID-19 pandemic changed the global economic outlook?

Ataman Ozyildirim

Looking at the results of the Conference Board's latest C-suite Challenge survey, which was conducted between mid-May and mid-June, most C-suite executives expect a U-shaped recovery, one which involves an extended contraction through Q3 and a slow recovery after that.

In geographic terms, Japan and the Gulf Cooperation Council companies were the most pessimistic, perhaps reflecting a great exposure to the state of the global economy. Most respondents do not see a return to pre-COVID levels of revenue before the first half of 2021. China is the main outlier here with an expectation of recovery during the second half of 2020, perhaps because of the influence of the government on the economy. But overall, the sentiment captured by the survey seems to be cautiously optimistic about recovery but see it happening at a slow pace going forward.

Juergen Tinggren

It is tempting to think that the strength of public healthcare systems and social welfare provision in Europe would give European companies an edge in the recovery process, but they are not necessarily in a better position. Their healthcare sectors have not produced a lower mortality rate, and confidence in Europe is no higher than elsewhere about the ability to cope with a second wave of COVID-19 without further restrictive lockdowns.

It is true that governments have moved quickly to provide support to labour markets, but this has largely been a panic measure rather than one which has been carefully thought through. The result is that firms which probably should fail are being unhealthily propped up even when demand is unlikely to continue in the new environment.

In fact, government support may postpone much needed structural adjustments in Europe to adapt to the changes in demand that reflect continuing consumer caution.



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What impact will the pandemic have on corporate operations in the longer term?

Ataman Ozyildirim

Our latest C-Suite Challenge survey also suggests that CEOs see the COVID-19 pandemic as an opportunity to accelerate digital transformation as companies come to grips with the changes in consumer psychology and workforce expectations that are driven by concerns over issues such as social distancing.

The changing views of how the workforce should be re-organized to interact more efficiently, both internally and externally, will be a big part of the move out of the current situation. So will the need to strengthen the corporate mission to meet the demands of the 'next normal' emerging from the pandemic. But, there is also a growing appreciation that CEOs can help to shape this 'next normal' by the choices that they make.

Courtney McCaffrey

The idea of digital transformation has been around for a while but the pace at which it was being adopted has varied widely between companies. The difference now is that COVID-19 has accelerated the adoption process even in companies that have been slower to develop in the digital area. Whether it is the use of Zoom to increase working from home or the rise in consumer demand to interact through e-commerce, digital transformation is no longer optional – it is a matter of corporate survival. There has been a similar change in the use of tech in manufacturing, where the pandemic has accelerated the adoption of robotics, as it has in warehouses. It is also worth noting the steep cut in business travel, a change which is likely to stay, and what this means for the overall long-term reduction in emissions.

However, digital transformation is dependent on fast and dependable internet access. This is not a given in many developing economies, although the examples of technology leapfrogging that we have seen give some hope that wireless broadband can accelerate internet use. But developed economies, not least the United States, have significant differences in internet access between urban and rural locations.



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Juergen Tinggren

We are looking at a major change to the way that we work as a result of the pandemic.

This is largely being driven from the C-suite, which in many cases has been surprised to find how much technologies like video conferencing have developed in recent years. Tech companies are poised to bring in new products that will allow companies to make much better use of digital links within the workforce and between the company and the customer, making it possible to replace significant amounts of business travel and office space.

It is also worth noting that most companies say that they do not expect a vaccine to be available before the second half of 2021, with many acknowledging that the widespread distribution of an effective vaccine that makes everybody comfortable will take a lot longer than that.

What are the greatest sources of geopolitical risk for companies?

Courtney McCaffrey

The latest EY Geostrategy in Practice survey, which we put out in May, surveyed a thousand CEOs and C-suite executives about geopolitical risk at the end of 2019.

About half said that political risk was higher than two years ago, with 72% of respondents from large companies saying that. The top three geopolitical issues being identified as having the greatest impact on their companies are the role of the US in the international system, stability in the EU, and US-China relations. An interesting result from the survey is that executives tend to have a local perception of geopolitical risk. This makes sense insofar as their footprints and supply chains will often be in the same region, but it does suggest that they may be missing significant geopolitical trends that will still affect them.



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COVID-19 has strengthened the importance of two of the key issues identified in the survey – trade protectionism and the importance of technology. The pandemic has increased existing uncertainty about trade by adding new export restrictions and local content requirements, while it has accelerated the use of robotics and AI to help manufacturing and brought life sciences to the fore in the search for a vaccine. This underlines the circular process by which innovation in technology fuels international competition, which in turn stimulates more innovation.

The answer to the question ‘which country is the next China?’ is that there really isn’t one, not even India. It is true that Vietnam is working hard to attract investment that might otherwise have gone to China, and that SE Asia as a whole has benefited from economic shifts related to the COVID-19 crisis, but what we will continue to see is a trend towards diversification across markets to build supply chain resilience. Meanwhile, the role of the WTO will continue to wane, at least in the near term.

Ataman Ozyildirim

It is important to realise that whatever the result of November’s presidential election, it will not mean a change to the fundamental challenges at the centre of the US-China relationship. The language may moderate under a Biden administration but issues like intellectual property, technology transfer, and Beijing’s role in the Chinese economy remain major long-term problems and go beyond current concerns about trade balances.

Juergen Tinggren

It is also true that countries are entrenching national positions that other countries see as unreasonable – the US rejects a European tax on tech companies, France protects its auto sector with tariffs despite criticism, Germany persists with the Nord Stream 2 pipelines, and so on.

Europe tends to see these sorts of problem as largely associated with the Trump administration but, while under a Biden presidency we may see a more cooperative approach to some of these issues, the problems themselves won’t change.



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Are firms sufficiently prepared to manage political risks?

Courtney McCaffrey

The EY survey shows that 70% of respondents understand the importance of assigning management of political risk to an individual or function, but there is no clear agreement as to who or what that should be. The CRO or CFO are mentioned most often, although each is favoured by only a quarter of respondents. But for all companies, the key is to place political risk management with an individual who has strategic cross-functional authority.

Companies are using a range of tools to contend with political risk (more than 40% of respondents said they take ten or more actions to manage political risk) but the most widely used include the integration of political risk into the ERM function, improving the understanding of exposure to political risk, and bringing individuals with political experience into senior positions. There is also scope to make greater use of external sources of analysis. It is interesting to note that among the least mentioned were political risk insurance, modelling, and developing trusted stakeholder relations. Among things that companies can do more broadly to improve political risk management are increase internal communications about political risk, increase board involvement in the handling of political risk, and overcome the effect of silos within the corporate structure. Overall, our survey suggests that companies are still at an early stage of adopting a strategic approach to political risk. Despite a lot of action, not all of the pieces are fitting together yet.

In terms of which sectors are better placed to deal with political risk, it remains the case that leadership is still at the company rather than the sector level. However, energy has long experience in this area from the need for a social licence to operate and the sector has deep competence with using tools such as scenario planning. By contrast, the tech sector is lagging because it has only recently encountered the impact of political risk and needs to up its game.

Juergen Tinggren

One aspect that has come to the fore recently is the question of what the company stands for, what its values are. This is part of the transition from shareholder value creation to stakeholder value creation. Companies will often have strong values and ethics in the boardroom, but they are now under pressure from their employees to articulate those values in response to external situations involving issues like discrimination, as the response to Black Lives Matter has shown. At times this will mean publicly taking positions that are not in line with those of the government.



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