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Challenges Faced by Businesses in the New Normal

CONFEDERATION OF ASIA-PACIFIC CHAMBERS OF COMMERCE AND INDUSTRY

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The Journal of Commerce and Industry hopes to provide its readers with ideas and visions on regional economic cooperation. Articles on industrial entrepreneurship and management and on international trade and business practices also offer challenging and inspiring models.

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This issue features articles that appeared in Japan Times, the publications of the Asian Development Bank (ADB), the World Economic Forum, Kellogg Insights, and BRINK, the new service of March & McLennan Insights, a research institute dedicated to analysing increasingly complex risks that are reshaping industries, governments, and societies. The editors and staff of the CACCI Journal of Commerce and Industry would like to take this opportunity to thank the authors - for sharing their materials with CACCI and its members.

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A New Year's Resolution for the World: Find a Common Path to Recovery

Sri Mulyani Indrawati
Finance Minister of Indonesia

JAKARTA – This year, the world experienced a global crisis unlike anything seen in generations. The COVID-19 pandemic is indiscriminate and unprecedented in scale, and has exposed pervasive weaknesses in health systems, emergency preparedness and multilateral coordination. Though the coronavirus is primarily a health issue, it remains a multidimensional crisis.

Russian President Vladimir Putin attends the Group of 20 summit hosted by Saudi Arabia via video conference at the Novo-Ogaryovo state residence, outside Moscow, on Nov. 21. | SPUTNIK / VIA AFP-JIJI

Owing to the sheer complexity of the pandemic's fallout, policymakers at all levels have been confronted with unprecedented challenges. Governments have had to strike a balance between protecting lives and livelihoods, and maintaining fiscal space and avoiding higher debt burdens. During these extraordinary times, the trade-offs between speed, accuracy and effectiveness in policy-making have become widely apparent.

Though most national governments have responded to the crisis in a similar overall fashion, the effectiveness of policies has varied widely across countries, reflecting differences in political leadership, institutional capacity, decision-making processes and other factors. Robust and inclusive health-care systems, emergency preparedness and social safety nets have all played a critical role. In the future, these systems, along with sound macroeconomic policy and available fiscal space, will allow countries to respond faster and more effectively to similar shocks.

And such shocks can be sharp and, worse, synchronous. From January to April 2020, the global economy plunged from general optimism to the worst downturn since the Great Depression. The World Bank estimates that as many as 100 million people will be pushed into extreme poverty, reversing decades of progress.

Across developing countries, the burden of COVID-19, and the ensuing lockdown measures, has fallen the hardest on workers and households that lack access to adequate social safety nets. Without an expansion of assistance, the near-poor and other vulnerable groups could easily fall into deeper penury. But the efficacy and pace of a government's response depends heavily on the availability and reliability of data. Countries that already have detailed, easily accessible information about potential beneficiaries can adjust their programs very quickly to target at-risk populations. For those without unified databases, however, expanding the data in the midst of a pandemic poses significant challenges.

For its part, Indonesia, like most countries, has responded to the pandemic by reinforcing its public-health infrastructure, expanding social protections, and extending support to small businesses. With a unified household database for the bottom 40% of the population already available, we have been able to expand eligibility for benefits quickly, with the goal of covering the bottom 60% of households.

Whereas small businesses and the informal sector were relatively well-cushioned from previous economic crises, these constituencies have now been among the most vulnerable to pandemic lockdown measures. Like many other countries, Indonesia has therefore emphasized policies to support small businesses, including through subsidized interest rates, debt restructuring and working-capital loans combined with credit guarantees.

Looking toward 2021, it is already clear that the shape and pace of a global recovery will depend on several related factors. But the most important is global leadership. The international community needs to agree on a common platform for driving a recovery that is consistent with the 2030 Sustainable Development Goals.

Yet, whereas G20 leaders came together in the aftermath of the 2008 financial crisis to save the world economy from a deeper collapse, we are now facing an unprecedented lack of global leadership. The United States and China are locked in a conflict over trade, 5G technology and other geopolitical issues, and multilateral systems and processes have been sidelined in the name of national sovereignty.

In the absence of global leadership, each country is left to focus on what it can do domestically to avoid the worst-case scenario of a protracted pandemic while maintaining progress toward the SDGs. For example, Indonesia's social protection programs and policies in support of small businesses include special carve-outs for women beneficiaries. This approach not only improves financial inclusion for women, but also advances other development goals, because women tend to allocate more resources to children.

Policymakers must also reckon with the pandemic's impact on how people work and interact, and with sharply higher reliance on digital technologies and Internet infrastructure. The COVID disruption thus represents an opportunity to transform the economy through more efficient, effective and flexible working arrangements and a reduced carbon footprint. Investments in digital technology and infrastructure are both valuable in themselves and powerful catalysts for economic recovery.

Moreover, with narrowing fiscal capacity everywhere, reforms to improve the quality of public spending have become increasingly important. Transparent policy design, accurate data, and effective institutions are all crucial to ensure that all public resources are spent on what really matters for development.

But even as governments focus on domestic challenges in the near term, global cooperation ultimately will be critical to secure a sustainable and inclusive recovery. Concerted international collaboration is needed to manage the upcoming debt tsunami that the pandemic has set in motion. Many countries were already struggling with unsustainable debt burdens before the crisis, and it will take global cooperation to avoid sweeping credit downgrades and a wave of sovereign debt crises in the months ahead.

Moreover, because the pandemic will not be defeated until the virus has been eradicated in all countries, global cooperation will be needed to ensure universal access to vaccines. Without universal vaccination, COVID-19 will further widen the gap between rich and poor, exacerbating social and political instability within and across countries.

So far, the world has managed to avoid the worst-case scenario, having heeded many of the lessons of the 2008 crisis. But we have yet to pass the pandemic test. The 2020 crisis has shown us that we need even more global cooperation in order to face this century's toughest challenges.

The global recovery is now on the line. We must reform and revive the multilateral system and resist those who would throw the baby out with the bathwater. The global economy is one boat carrying the fate of 8 billion people. Its recovery is in the interest of every business, every national government and every multilateral forum.

Japan Times

Potential for a big bounce-back in 2021?

BY MOHAMED A. EL-ERIAN

Customers sit outside at a cafe in Wellington on Dec. 15. | BLOOMBERG

CAMBRIDGE, ENGLAND – For people around the world, arguably the greatest hope is that 2021 will be a year of beneficial transformation: rapidly recovering economies, firms eager to pivot to offense with "resized" business models, and governments talking about "building back better." The risk, as yet insufficiently appreciated, is that decision-makers will end up spending most (and too much) of the year dealing with both existing and new damage from the COVID-19 shock.

There are four good reasons to be optimistic about 2021. First and foremost, scientists and pharmaceutical companies have worked furiously to develop a COVID-19 vaccine, often supported by sizable direct and indirect government funding. A handful of vaccines have been approved, thus opening the way to the herd immunity needed for economic and social interactions to return to normal.

Second, a substantial part of the private sector — supported by wide-open capital markets providing ample low-cost financing — has been busy thinking and planning for the post-pandemic world. Firms are looking to emerge from the crisis with a better balance between resilience and efficiency, as well as with the increased operational agility and open-mindedness that they were able to acquire only when forced into a highly uncertain and uneven crisis-management paradigm.

Third, the inherent difficulties of management during the pandemic have highlighted myriad leadership shortfalls in companies and local and national governments. The COVID shock has also exposed major global and regional coordination failures, and impelled a better and more widespread appreciation for low probability, high-impact "tail events." All this should serve to accelerate the much-needed adaptation of yesterday's governance structures to today's more fluid realities.

Finally, the various natural experiments forced on many countries and segments of societies during the pandemic have fostered much greater recognition of the importance of sustainability, cognitive diversity, and social responsibility. That shift may in turn allow for a much-needed change in implicit economic operating models in many areas. Instead of continuously borrowing from the future, we can and must do a lot more now to ensure greater resources for future generations so that they, too, are better off than their parents and grandparents were.

My fear is that these four possibilities are thwarted by our inability decisively to overcome pandemic-inflicted damage. Such an outcome certainly would not be the first time that an imperfect journey prevents economies from reaching a promising destination.

Following the 2008 financial crisis, for example, many policymakers were so quick to celebrate victory over the real threat of a multiyear global depression that they took their eye off the ball when it came to securing robust, inclusive, and sustainable long-term growth in its aftermath. Particularly in rich countries, this lapse aggravated structural fragilities of all types — economic, financial, institutional, political and social — and drained their bounce-back potential.

To avoid repeating this mistake in 2021 as the world emerges from the pandemic, policymakers must act early and decisively in three areas.

First, we need to ensure that we can live better with COVID-19. Even if a vaccine is approved soon, producing and disseminating it will take several months. Moreover, neither high adoption rates nor durable effectiveness are guaranteed. Therefore, we may not attain an appropriate level of herd immunity until the second half of 2021, and even that timetable is optimistic.

Many advanced economies urgently need to repress COVID-19 infection rates while quickly building up critical testing and tracing capabilities, enhancing therapeutics, and improving communications. In particular, governments and public-health bodies need to do a lot more to reinforce the message that while being careful about COVID-19 involves hardships and sacrifices, it is the only way to protect oneself, one's family and the community.

Second, governments must take steps now (such as infrastructure modernization, green-economy investments, labor retraining and retooling and tax reform) to counter the mounting long-term pressures on potential growth. If they fail to act quickly, the post-pandemic world will be awash with corporate bankruptcies and prolonged unemployment. Corporate concentration will be higher, globalization will trend down, competitiveness will fall, and inequality of income, wealth and opportunity will worsen. The global economy will be less productive and more fragmented, with less participation and access, along with a higher degree of household financial insecurity. All of this could result, on both the supply and demand side, in prolonged, hard-to-overcome structural obstacles to economic recovery.

Third, policymakers must address the decoupling of finance from the real economy, which has become so extreme that future economic well-being is in jeopardy. The last thing the global economy needs is a wave of disorderly financial deleveraging in which the unwinding of non-bank financial institutions' excessive risk-taking in the past few years undermines or even derails the economic recovery, as weak as it may be.

Failure to act rapidly on these three imperatives will significantly heighten the risk that the post-pandemic global economy becomes stuck in a paradigm of insufficient growth, excessive inequality, increasing social ruptures and periodic bouts of financial volatility. Already, too many people are at risk of permanent economic displacement owing to pandemic-related legacies and long-incipient structural changes. A sluggish policy response will sap the energy, ingenuity, and community buy-in needed to ensure a smooth transition to new, productive, well-paying opportunities.

Engineering a big economic rebound in 2021, and maintaining strong and sustainable growth thereafter, will require much more than a COVID-19 vaccine. But with bold measures, inspirational leadership, and a bit of luck, policymakers can help to set the global economy on the right path.

Japan Times

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Will Companies Remain Empathetic After the Coronavirus?

Ilya Bonic, President, Career, and Head of Strategy at Mercer;
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In the current disruption, HR has the opportunity to lean in to analytics to answer strategic questions raised by the COVID-19 downturn. Ultimately, delivering on the employee experience could be the most important — if most difficult – trend to build on in 2020.

The COVID-19 pandemic has disrupted — and reinvented — the notion of business as usual. For many organizations, working life is a new, home-based reality. Others are innovating safer ways to deliver essential services to the public, while still others have had to suspend operations. In a climate of such turmoil and uncertainty, the capacity to focus on the well-being of employees and the economics that underpin the enterprise has never been more urgent.

For now, the fallout of COVID-19 may overwhelm our sightlines and operations. Yet, when business and society move past the pandemic and toward a brighter future, the impact — and opportunity — of artificial intelligence and technology will have vastly accelerated. So will a more expansive, empathetic view of organizational purpose. More than ever, workers expect their employers to look after their health and deliver positive outcomes for customers, society and all stakeholders by utilizing data and analytic insights.

Change has rarely come so quickly, and new data underscores that profound workforce transformation was in the air before the pandemic. As AI, robotics and remote-working technology race ahead, Mercer's 2020 Global Talent Trends study — which surveyed 7,300 senior executives, human resources leaders and employees from nine industries and 16 geographies — told us that 77% of executives see contingent workers playing a far greater role in the future. Meanwhile, 34% of employees expect their jobs to disappear in the next three years — and this was before the COVID-19 pandemic.

Winning with Empathy

Indeed, concern about job security has risen during the COVID-19 crisis. These concerns challenge businesses to proceed with empathy in relationships with employees, and there is evidence everywhere that they are heeding the call. For example, organizations have been quick to enact work-at-home policies supported by the digital technologies that make the change as seamless as possible.

A home-based workforce needs policy flexibility to deal with crisis health care, childcare and societal restrictions. Major organizations are even pledging not to lay off workers during the COVID-19 unemployment surge, or are beginning to explore temporary talent swapping to both lend support and offset costs. Global concerns about expatriates or business travel have added layers of complexity, foreshadowing changes in the housing, hotel and airplane industries.

Public-facing organizations have had to enact new safety routines. Companies are trying to extend maximum empathy not only to employees facing furloughs or lay-offs, but also to customers whose ability to pay may be disrupted by job loss. Examples abound of banks and automotive companies adjusting grace periods for mortgage or car payments, and numerous executives have taken pay cuts. Companies that can are adjusting their severance policies — for example, to soften the blow for workers who may lose health care coverage — and instilling hope in furloughed workers via alternative work schemes and plans for "reboarding" once the pandemic passes.

It will pass. When it does, there will be renewed pressure to recruit, or re-recruit, talent. Importantly, the 2020 Global Talent Trends Survey noted that thriving employees (defined as prospering in terms of health, wealth and career) are twice as likely to work for an organization that balances economics with empathy in their decisions. For businesses, winning with empathy will be a measure of how well they master three crises: a health crisis, most obviously; but also a digital crisis, as work technology ramps up and requires new skills, and an economic crisis brought on by the disruptions of COVID-19.

U.S. businesses face such financial consequences as the pandemic's impact on 2020 self-insured health plan costs. Empathy and economics must guide the hands of self-insureds: How will they respond to announcements that major U.S. health insurers will waive cost-sharing for all COVID-19 care and treatment for insured plan members?

In a recent poll of 650 self-insured employers, more than a third said they were very likely or likely to waive cost sharing as well, while just under a fourth said they were unlikely or very unlikely to do so. But 39% had not yet begun to consider the question, facing a number of considerations, from in-network/out-of-network treatment to billing, quality and time-frame issues.

Four Trends for Tomorrow

These complexities are, perhaps, just the tip of the long-term iceberg. Mercer's 2020 Global Talent Trends research identified four trends that will shape the future for organizations and the people who comprise them, beginning with a focus on the future.

For one thing, 68% of executives want to accelerate progress on environmental, social and governance (ESG) metrics in 2020. But at the same time, the COVID-19 pandemic's impact on productivity makes it imperative that good financial advice for all generations in the workforce will be a key part of today's and tomorrow's value proposition. As for M&A activity, sustainability will be a core part of due diligence in the future. This is also the time to embrace multi-stakeholder empathy as societies face challenges to the social safety net and welfare.

Then there is the race to reskill. Nearly 100% of organizations said they want to pursue transformation in 2020, but report significant skill gaps. The C-suite regards reskilling as its top talent investment for business success, and one that has come sharply into focus as companies seek to prepare their people to emerge effectively from the downturn. The new work-at-home paradigm prompted by COVID-19 adds further urgency to the reskilling race. It's an opportunity to dedicate more time to learn digital skills — as well as other skills cited in the Global Talent Trends report — and more than 75% of employees said they are ready to learn them. HR leadership can play a major role in readying the workforce for a reskilled future.

Just as urgently, the trend toward predictive analytics has gathered strong momentum in recent years, but workforce science insights should be used more widely. Only 43% of organizations use metrics to identify likely-to-leave employees, while 18% know the impact of their pay strategies and just 12% use analytics to correct inequities of gender, race and age — all valuable data in times of change. The key question today is, what data is required to enable executives to make decisions with empathy?

In the current disruption, HR has the opportunity to lean in to analytics to answer strategic questions raised by the COVID-19 downturn: What are the best strategies for enhanced performance? Which departments need more contingent staff? Where should skilled talent hubs be located?

Ultimately, delivering on the employee experience could be the most important — if most difficult – trend to build on in 2020. While 58% of businesses are trying to become more people-centric, only 27% of C-suite executives believe their investment in the employee experience will yield a business return.

Regardless, employee well-being ranked as a top workforce concern by nearly half of survey respondents, but only 29% of HR leaders said they have a health and well-being strategy, although this is likely to be changing as the COVID-19 crisis continues. With two-thirds of employees globally feeling at risk of burnout in the year ahead, how likely is that risk to mushroom in a time of social distancing, remote working, closures and prolonged quarantines?

Energizing employees at a time of unprecedented crisis is the challenge of our moment — and our immediate future. If anything, the COVID-19 pandemic has underscored the need for action beyond business contingency plans and safety measures, and the data shows that employees who say they feel energized by their job are more resilient, more ready to reskill and more excited by the changes ahead.

Only an empathetic culture can keep employees energized amidst so much uncertainty, enhancing the stability and agility organizations seek in these tumultuous times.

Brink News

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A Bullish Outlook for Asia in 2021

Bart Édes, Former North America Representative of The Asian Development Bank

There are sound reasons to be upbeat about Asia's prospects for the coming year. Several countries in the region have managed to subdue COVID-19 and have left the worst behind.

The Asian Development Bank (ADB) forecasts that China, Taiwan and Vietnam will all register positive growth for 2020, something that will elude all G-20 economies, other than China. Across developing Asia as a whole, ADB expects growth in gross domestic product of around 7% in the coming 12 months.

Customers buy coffee in a trendy coffee shop inside an upscale shopping mall in Bangkok. Business leaders in the biggest Asian economies exude confidence about the near-future. Photo: Mladen Antonov/AFP via Getty Images

Confidence Is High

Business leaders in the biggest Asian economies exude confidence about the near-future. A December 2020 survey of executives found that a larger share of respondents from both Greater China and India say that things will be better in six months than those from Europe, Latin America and North America.

Bloomberg News reports that official data from China show that 2020 may be a record year for new foreign investment in the country. Exports have been surprisingly resilient for many Asian countries, due in part to great demand for computers and other IT equipment by professionals working from home.

However, while prospects for an accelerating rebound are bright, there are several uncertainties that could tarnish the picture. Here are seven risks that investors, businesses and policymakers should keep in mind as they plan for the new year.

1. Vaccines Don't Deliver

Great hope surrounds the various COVID-19 vaccines that were quickly developed and are now being distributed. Many loss-making businesses will not be back in the black until a sizable share of the population is vaccinated, and Asian governments will maintain measures to uphold social distancing and limit mingling with people across borders well into the new year.

This will put a continued damper on the airline and tourism sectors, causing continued pain in tourism-dependent economies like Macau, the Maldives, Thailand and several Pacific island states. India has recorded more than 10 million confirmed cases of COVID-19, second only to the United States, and has not been nearly as successful in containing the virus as other Asian countries.

Developing Asian countries are far behind OECD member countries in the number of pre-ordered vaccine doses. And when people finally get the chance to receive an injection, history shows that not everyone reacts to a vaccine in the same way. Illnesses or deaths attributed, rightly or wrongly, to one of the new COVID-19 vaccines could lead to a pause in delivery. The complex vaccine distribution chain is also vulnerable to a myriad of failings, including intentional disruption by antivaxxers or others seeking to create chaos. With so much riding on the success of this grand effort, effective distribution of COVID-19 vaccines is the most consequential risk confronting Asia (and the world) in 2021.

2. China and the US Tensions Deepen

President-Elect Joe Biden is expected to maintain his predecessor's tough stance on China's trade, subsidies, intellectual property rights protection and other business practices, while more vocally condemning Beijing's human rights violations and undemocratic practices. Taiwan, Hong Kong and the South China Sea will remain flashpoints.

For his part, Chinese President Xi Jinping intends to encourage domestic consumer demand, strengthen internal supply chains and intensify self-reliance in critical technologies, thereby contributing to gradual decoupling of the world's two biggest economies. China's "wolf warrior" diplomacy will ensure defiance in the face of criticism about violating international norms. The rest of Asia will suffer if the United States and China settle into a post-pandemic cold war, compel third countries to choose sides and fail to find common ground on serious global problems requiring cooperation.

3. Deprivation Spurs Unrest

The pandemic has wreaked havoc on economies and labor markets and increased poverty, hunger and inequality. World Bank economists estimate that COVID-19 could force 164 million people into poverty in South Asia and East Asia and the Pacific. The International Labor Organization reports that the crisis has led to the loss of more than 80 million jobs in Asia and the Pacific.

Before the pandemic, most people in the region were living in countries where income inequality had been growing. The IMF warns that the ongoing crisis risks exacerbating inequality in the region and is having especially negative impacts on younger workers, women and people who are more vulnerable.

Frustration with authoritarianism, corruption and joblessness, and lack of opportunity, could inflame passions and lead to violent civil disturbances in some Asian countries. Regional research and data show that conditions in South Asia and Southeast Asia are ripe for social unrest stimulated by food shortages, rising prices and reduced incomes due to lost livelihoods and remittances.

4. Negative Impacts of Climate Change Multiply

The International Federation of the Red Cross and Red Crescent Societies has reported that the Asia and Pacific region faced a record number of climate-related disasters in 2020, affecting tens of millions of vulnerable people already hit hard by the pandemic. The relief agency reported that it had responded to 24 climate-linked events this year in the region, one-third more than in the previous year. The environmental incidents included floods, typhoons, extreme cold and drought.

While brutal weather events are annual occurrences on the Earth's most disaster-prone continent, the negative impacts of climate change are growing year-by-year, making this a perennial risk to economies and human well-being across the Asian continent.

5. Domestic Debt Stifles China's Strong Recovery

China's emergence from the pandemic and expected strong growth next year could spur a successful regional and global rebound. Yet this hopeful scenario is threatened by a faltering Chinese property market. According to data from China's court system, 228 real estate companies went bust in the first half of this year.

Separately, Fitch Ratings reported that between January and October 2020, state owned enterprises in different lines of business defaulted on a record 40 billion yuan ($6.1 billion) worth of bonds — about as much as in the previous two full years combined. A collapse in real estate prices, or acceleration of defaults among SOEs, could leave the domestic financial system vulnerable and slow the pace of economic growth, with implications for Asia as a whole.

6. Cybercrime Soars

Fraud, theft and extortion carried out through computers have become a growing source of concern to private and public organizations. Microsoft has estimated that cyberattacks are costing the Asia and Pacific region 7% of its gross domestic product.

A survey of more than 2,000 business leaders in Asian and Pacific countries by the Australian research firm StollzNow between late May and early June 2020 found that seven in 10 respondents were more concerned about cyberattacks than before the pandemic. Cybercrime risks have grown as corporate computer systems are linked with remote workers whose IT security arrangements are less stringent than at the office, and hackers are attempting to benefit from the changed circumstances.

7. Developed Countries Stumble

While several Asian economies have come back to life, large swaths of Western Europe and North America are struggling to gain control over the deadly virus. The never-ending Brexit saga poses an economic risk not only to the United Kingdom, but also to the European Union.

The unhealthy partisan political divide in Washington, D.C., could lead to gridlock that prevents further actions that would help the battered economy, like direct aid to budget-strapped American states and infrastructure investments. Slow recovery of demand in key non-regional export markets for Asian manufacturers would constrain the pace of growth in Asia.

Conclusion

So long as COVID-19 vaccines are rapidly and widely distributed — and prove to be as effective as early testing has shown — the accompanying rise in the confidence of consumers, businesses and investors would likely overwhelm the potential impact of other risks to Asia's rebound.

Brink News

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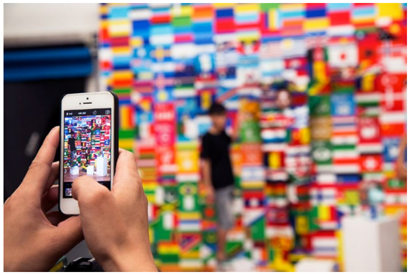
Bart Édes is an international trade and development policy specialist focused on transformative trends reshaping Asia and the world. Between 2009 and 2020, he held senior staff positions at the Asian Development Bank, most recently serving as its representative in North America.

The Sustainable Development Goals Are Good for Business

Jon Hales, Business and Climate Director at Project Everyone

This is the first in a series about the state of business around the SDGs, in anticipation for the COP26 Conference in November.

The Sustainable Development Goals celebrated their fifth anniversary last September during a year that caused most of these goals to slow down, stop or, in many cases, reverse. The global pandemic negatively impacted almost all of the issues found in the SDG framework.



Artwork for the Global Goals campaign in August 2015 in Beijing, China. September 2015 marked the launch of the SDGs. The SDGs can be used to engage employees with an agenda that might otherwise sit isolated in sustainability teams. Photo: James Wasserman/Getty Images for Global Goals/ United Nations

Unlike their predecessors, the Millennium Development Goals, the SDGs were developed with the ideas from businesses. Companies helped shape the agenda, agreeing in principle to hold themselves accountable for their part in achieving the Goals by 2030. The resources, innovation and adaptability of the private sector are critical for attaining the ambitious set of 17 global Goals and 169 targets.

The Trust in Businesses Is Rising

As companies line up to nail their colors to the mast on the topics of race, climate change, gender, education and more, the time has come for the private sector to double down on tackling the world's biggest challenges.

Many people remain skeptical of the notion that business can truly be a force for good — and that skepticism is well earned. Decades of tax avoidance, corporate lobbying and human rights abuses have played their part in tarnishing the private sector's reputation.

Yet, according to the recent Edelman survey, trust in business is currently higher (61%) than in NGOs (57%), government (53%) and the media (51%). And trust in peoples' own employers is significantly higher still (76%). Furthermore, of the above listed institutions, business is the only one seen by a majority as both competent and ethical.

As governments falter at hurdle-after-hurdle in dealing with the pandemic and its effects, a large proportion of businesses have managed to act in the best interests of their employees and broader stakeholders. With the rollout of the vaccine program, we have witnessed the incredible power of private sector innovation when combined with public sector investment (SDG Goal 3 – Good Health and Wellbeing). Technological innovations fueled by entrepreneurial solutions enabled huge sections of the population to continue working remotely when offices closed (Goal 8 – Decent Work and Economic Growth).

Expectations of Social Responsibility

With this increase in corporate standing and trust comes more responsibility.

Companies and CEOs are increasingly expected to take the lead on societal change, rather than wait for governments to impose it. They are also increasingly at risk of being called out for poor practice in the wake of movements such as #MeToo and Black Lives Matter (Goal 5 – Gender Equality and Goal 10 – Reduced Inequalities) and of being held accountable by customers and employees if their business practices don't parallel the values they say they believe in.

On the climate side, it is no longer 'news' to declare a net zero plan by 2050 — companies are under increasing pressure to do so by 2040 or sooner (Goal 13 – Climate Action).

It would be naïve to suggest that pure altruism is fueling this sea change in corporate behavior, but it is just as much of a fallacy to suggest it is merely cynical posturing and box checking.

Enlightened Self Interest Is Growing

What we are witnessing is a show of enlightened self-interest. According to research, purpose-driven companies witness higher market share gains and grow three times faster on average than their competitors — all while achieving higher workforce and customer satisfaction. They are a magnet for talent.

The recognition that there are 'no jobs on a dead planet' is growing, shorthand for the effects the climate and ecological emergency is already wreaking on the economy in the form of floods, storms, fires and, of course, the global pandemic.

At Project Everyone, we convene a group called the Business Avengers: Seventeen companies who believe in the Sustainable Development Goals as a route for progress and who are leading in areas related to one or more of the Goals.

Some of the largest and most influential companies in the world — such as Google, Microsoft, Unilever and Mastercard — are increasingly using the SDGs, not merely as a CSR tool, but as a means to shape their long-term strategic planning and vision. It has been incredibly gratifying, when speaking to these companies, to hear their intentions to use this moment to 'double down' on ambitious target setting and sustainability commitments, even in the wake of vast challenges to their operations.

Using the SDGs to Guide Long-Term Planning

The SDGs provide the Business Avengers and other companies, large and small, with a comprehensive and robust framework to help measure their impact, both positive and negative, on the societies they operate in.

They serve as a reminder of the interconnected nature of these huge global challenges, and can help frame a narrative of how companies are striving to be responsible businesses by taking a systematic approach to all areas in which they either have material impact or the ability to affect.

In addition, the SDGs can be used to engage employees with an agenda that might otherwise sit isolated in sustainability teams. Their breadth means that every employee is likely to see themselves reflected in at least one of the Goals.

One may be passionate about female representation at the executive level (Goal 5 – Gender Equality), another about protecting the oceans (Goal 14 – Life Below Water) and another about species extinction (Goal 15 – Life on Land). Those employees can gain a sense of pride that their company is taking action, be encouraged to push for more ambition internally, use volunteer days or donate to charities to advance progress toward their chosen Goal.

Times of crisis are opportunities to re-evaluate our priorities. They are moments to shift and innovate. Every company should be taking this opportunity to examine their business practices, their purpose and their impact. The SDGs provide the most complete framework to do just that.

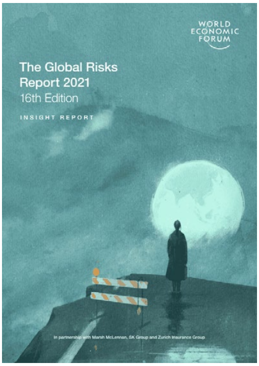
Brink News

About Author

Jon Hales
Business and Climate Director at Project Everyone

Jon Hales is the business and climate director for Project Everyone, a non-profit organization that seeks to put the power of communications behind the Sustainable Development Goals, also known as the Global Goals. Before joining Project Everyone, Jon was the director of Strategic Partnerships for Climate Action, where his focus was on helping facilitate public-private partnerships to accelerate the low carbon transition.

The Global Risks Report 2021



The 16th edition of the Global Risks Report, published by the World Economic Forum with support from Marsh McLennan, highlights the disruptive implications of major risks, including the COVID-19 pandemic, that may reshape our world in 2021 and over the next decade. The report draws on the survey results from nearly 700 experts and decision-makers globally who were asked to rank their top concerns in terms of likelihood and impact.

Executive Summary

The immediate human and economic cost of COVID-19 is severe. It threatens to scale back years of progress on reducing poverty and inequality and to further weaken social cohesion and global cooperation. Job losses, a widening digital divide, disrupted social interactions, and abrupt shifts in markets could lead to dire consequences and lost opportunities for large parts of the global population. The ramifications—in the form of social unrest, political fragmentation and geopolitical tensions—will shape the effectiveness of our responses to the other key threats of the next decade: cyberattacks, weapons of mass destruction and, most notably, climate change.

In the Global Risks Report 2021, we share the results of the latest Global Risks Perception Survey (GRPS), followed by analysis of growing social, economic and industrial divisions, their interconnections, and their implications on our ability to resolve major global risks requiring societal cohesion and global cooperation. We conclude the report with proposals for enhancing resilience, drawing from the lessons of the pandemic as well as historical risk analysis. The key findings of the survey and the analysis are included below.

Global risks perceptions

Among the highest likelihood risks of the next ten years are extreme weather, climate action failure and human-led environmental damage; as well as digital power concentration, digital inequality and cybersecurity failure. Among the highest impact risks of the next decade, infectious diseases are in the top spot, followed by climate action failure and other environmental risks; as well as weapons of mass destruction, livelihood crises, debt crises and IT infrastructure breakdown.

When it comes to the time-horizon within which these risks will become a critical threat to the world, the most imminent threats – those that are most likely in the next two years – include employment and livelihood crises, widespread youth disillusionment, digital inequality, economic stagnation, human-made environmental damage, erosion of societal cohesion, and terrorist attacks. Economic risks feature prominently in the

3 - 5 year timeframe, including asset bubbles, price instability, commodity shocks and debt crises; followed by geopolitical risks, including interstate relations and conflict, and resource geopolitization. In the 5-10 year horizon, environmental risks such as biodiversity loss, natural resource crises and climate action failure dominate; alongside weapons of mass destruction, adverse effects of technology and collapse of states or multilateral institutions.

Economic fragility and societal divisions are set to increase

Underlying disparities in healthcare, education, financial stability and technology have led the crisis to disproportionately impact certain groups and countries. Not only has COVID-19 caused more than two million deaths at the time of writing, but the economic and long-term health impacts will continue to have devastating consequences. The pandemic's economic shockwave—working hours equivalent to 495 million jobs were lost in the second quarter of 2020 alone—will immediately increase inequality, but so can an uneven recovery. Only 28 economies are expected to have grown in 2020. Nearly 60% of respondents to the GRPS identified "infectious diseases" and "livelihood crises" as the top short-term threats to the world. Loss of lives and livelihoods will increase the risk of "social cohesion erosion", also a critical short-term threat identified in the GRPS.

Growing digital divides and technology adoption pose concerns

COVID-19 has accelerated the Fourth Industrial Revolution, expanding the digitalization of human interaction, e-commerce, online education and remote work. These shifts will transform society long after the pandemic and promise huge benefits—the ability to telework and rapid vaccine development are two examples—but they also risk exacerbating and creating inequalities. Respondents to the GRPS rated "digital inequality" as a critical short-term threat.

A widening digital gap can worsen societal fractures and undermine prospects for an inclusive recovery. Progress towards digital inclusivity is threatened by growing digital dependency, rapidly accelerating automation, information suppression and manipulation, gaps in technology regulation and gaps in technology skills and capabilities.

A doubly disrupted generation of youth is emerging in an age of lost opportunity

While the digital leap forward unlocked opportunities for some youth, many are now entering the workforce in an employment ice age. Young adults worldwide are experiencing their second major global crisis in a decade. Already exposed to environmental degradation, the consequences of the financial crisis, rising inequality, and disruption from industrial transformation, this generation faces serious challenges to their education, economic prospects and mental health.

According to the GRPS, the risk of "youth disillusionment" is being largely neglected by the global community, but it will become a critical threat to the world in the short term. Hard-fought societal wins could be obliterated if the current generation lacks adequate pathways to future opportunities—and loses faith in today's economic and political institutions.

Climate continues to be a looming risk as global cooperation weakens

Climate change—to which no one is immune—continues to be a catastrophic risk. Although lockdowns worldwide caused global emissions to fall in the first half of 2020, evidence from the 2008–2009 Financial Crisis warns that emissions could bounce back. A shift towards greener economies cannot be delayed until the shocks of the pandemic subside. "Climate action failure" is the most impactful and second most likely long-term risk identified in the GRPS.

Responses to the pandemic have caused new domestic and geopolitical tensions that threaten stability. Digital division and a future "lost generation" are likely to test social cohesion from within borders—exacerbating geopolitical fragmentation and global economic fragility. With stalemates and flashpoints increasing in frequency, GRPS respondents rated "state collapse" and "multilateralism collapse" as critical long-term threats.

Middle powers—influential states that together represent a greater share of the global economy than the US and China combined—often champion multilateral cooperation in trade, diplomacy, climate, security and, most recently, global health. However, if geopolitical tensions persist, middle powers will struggle to facilitate a global recovery—at a time when international coordination is essential—and reinforce resilience against future crises. GRPS respondents signal a challenging geopolitical outlook marked by "interstate relations fracture", "interstate conflict" and "resource geopolitization"—all forecasted as critical threats to the world in three to five years.

A polarized industrial landscape may emerge in the post-pandemic economy

As economies emerge from the shock and stimulus of COVID-19, businesses face a shakeout. Existing trends have been given fresh momentum by the crisis: nationally focused agendas to stem economic losses, technological transformation and changes in societal structure—including consumer behaviors, the nature of work and the role of technology both at work and at home. The business risks emanating from these trends have been amplified by the crisis and include stagnation in advanced economies and lost potential in emerging and developing markets, the collapse of small businesses, widening the gaps between major and minor companies and reducing market dynamism, and exacerbation of inequality; making it harder to achieve long-term sustainable development.

With governments still deliberating how to pivot away from emergency to recovery, and with companies anticipating a changed business landscape, there are opportunities to invest in smart, clean and inclusive growth that will improve productivity and delivery of sustainable agendas.

Better pathways are available to manage risks and enhance resilience

Despite some remarkable examples of determination, cooperation and innovation, most countries have struggled with aspects of crisis management during the global pandemic. While it is early to draw definitive lessons, this edition of the Global Risks Report reflects on global preparedness by looking at four key areas of the response to COVID-19: institutional authority, risk financing, information collection and sharing, and equipment and vaccines. It then looks to national-level responses—acknowledging the varied starting points for individual countries—and draws lessons from five domains: government decision-making, public communication, health system capabilities, lockdown management and financial assistance to the vulnerable.

However, if lessons from this crisis only inform decision-makers how to better prepare for the next pandemic—rather than enhancing risk processes, capabilities and culture—the world will be again planning for the last crisis rather than anticipating the next. The response to COVID-19 offers four governance opportunities to strengthen the overall resilience of countries, businesses and the international community: (1) formulating analytical frameworks that take a holistic and systems-based view of risk impacts; (2) investing in high-profile "risk champions" to encourage national leadership and international co-operation; (3) improving risk communications and combating misinformation; and (4) exploring new forms of public-private partnership on risk preparedness.

World Economic Forum

Rethinking Resilience in an Age of Fractures: The Outlook for 2021 and Beyond

Carolina Klint, Risk Management Leader for Continental Europe, Marsh

At a societal and individual level, we continue to deal with the fallout of the COVID-19 pandemic while striving to make progress on recovery efforts. As highlighted in the 2021 Global Risks Report prepared by the World Economic Forum with the support of Marsh & McLennan and other partners, the world is contending with a fractured future, where the disparities laid bare by the pandemic and the acceleration of risks such as cyber and climate must be carefully and creatively managed to produce a more sustainable and resilient future for people, businesses, communities and governments.

Industry At a Crossroads

A disorderly industrial shakeout is currently underway, with businesses under increasing pressure from inward-looking national agendas, greater tech concentration and dependency, and heightened public scrutiny.

In their immediate response to the pandemic, governments injected substantial stimulus into their economies. They continue to do so with the $1.9 trillion plan unveiled by President-elect Joe Biden as the most recent example. However, in this quest for domestic resiliency and self-sufficiency, efforts may have been misdirected or overlooked certain industries and even restricted global supply chain and investment flows.

Smaller businesses are also facing increasing pressure from major competitors that have been able to leverage their resources to solidify their market position and expand. In the technology sector alone, dozens of acquisitions were made by the largest players throughout 2020. As governments look to enhance market competitiveness through more interventionist means, businesses may be exposed to more scrutiny or experience ripple effects due to their greater dependence on major technology service providers impacted by tightening regulations.

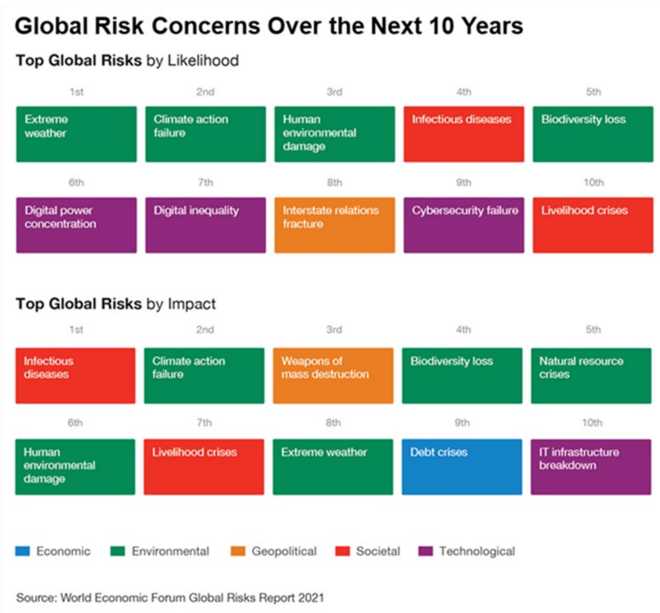
Pressures from investors, consumers and employees alike are mounting around key societal issues, from labor and consumer protections to company ethics, inequalities and climate change. At the height of the Black Lives Matter protests in June and July, for instance, thousands of businesses stopped their advertising on social platforms. By meeting the societal imperative of taking firmer and more active stances on key issues, during this critical recovery period and well into the future, businesses can avoid diminishing their revenue, reputation and access to capital and talent.

Technological Transformations Driving Increasing Cyber Exposures

The pandemic precipitated an unheralded technology revolution for big and small businesses alike. Rapid digitization transformed social and work interactions overnight. E-commerce, virtual conferencing, gaming and streaming all underwent unprecedented growth. By some estimates, internet use in 2020 increased by 30% worldwide, with e-commerce expanding from 15% to more than 30% in major global markets.

This rapid digitization also exponentially increased companies' cyber exposures and created more complex and potentially less secure networks. This year's survey, in fact, highlighted the failure of cybersecurity measures as a top short-term risk. And throughout 2020, we've seen increasing cyberattacks on government agencies and companies globally. Comparing the second half of 2019 to the first half of 2020, the volume of cyberattacks doubled, with many leveraging the COVID-19 crisis for an entry point.

This monumental shift could create potential catastrophic risks on a longer horizon. Consider the long-term outlook for automation: It threatens to replace 85 million jobs in just five years. The rush toward digitization, in response to the need for efficiency and reduced on-site labor, may further expose businesses to unforeseen security, regulatory, financial and ethical risks, particularly with more socially activist consumers and workforces concerned with further job losses.



Overlooked Environmental Risks?

In a year when the pandemic and its cascading impacts were a primary focus and surfaced as a top five risk in the Global Risks Report, environmental risks retained top spots as the most likely and consequential risks over the next decade. This should come as no surprise, with 2020 one of the costliest years on record for natural hazards and with the pandemic complicating responses to extreme weather events. Most of the $210 billion in global losses from natural hazards globally were uninsured, compounding the recovery and resilience challenges for governments and society.

Looking forward, many governments are focusing on a "green recovery," with green infrastructure and clean energy project investment central to their stimulus packages. Over 146 such plans and programs were introduced, announced, proposed or implemented in 2020. The funding dedicated to such efforts has dispelled the myth that governments do not have the financial capacity or will to support more rapid decarbonization and energy-efficiency transitions. Lower consumption levels and demand for oil, if they persist, also may provide grounds for further accelerating regulatory action.

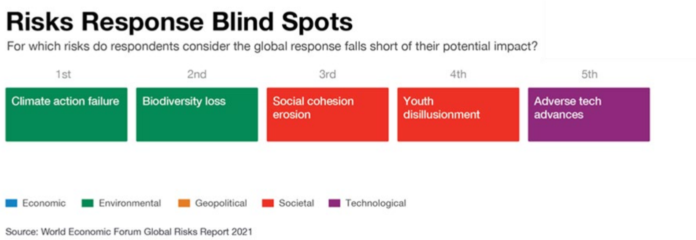
Business will benefit from investing in sustainability transitions now, leveraging increasing government-provided incentives, rather than risking forced timetables and a more disorderly and costly transition.

A Complicated Geopolitical Landscape

The geopolitical landscape continues to be shaped by the U.S.-China rivalry, with other nations having to navigate ratcheting tensions. This has constrained opportunities for countries who may lack superpower status, but still play influential roles in international relations, to create meaningful multilateral partnerships and tackle important global challenges.

Further complicating the outlook has been countries' varying successes dealing with COVID-19, which set back cooperation and diplomacy in many instances as countries turned inward to protect their own people. More than 90 jurisdictions implemented controls over the export of medical supplies and medicine in 2020.

Although some partnerships have been strengthened in 2020, notably the signing of the Regional Comprehensive Economic Partnership between 15 Asia-Pacific countries and upgrades to ties between the EU and ASEAN to a "strategic partnership," concerns still persist on critical global risks. Progress in important areas most in need of multilateral cooperation — such as trade, security, health and, notably, technology



governance and climate change — remains at risk of being seriously impeded.

Creating a More Resilient and Sustainable Future

In the face of strategic uncertainties and complex emerging threats, the Global Risks Report serves as an important resource for businesses seeking to transfer lessons learned from the pandemic crisis to pressing global issues and their associated emerging risks. It also serves as a reminder that companies should remain vigilant about "forgotten risks" that may seem low in probability, but are potentially catastrophic in their impacts and their interactions with other perennial risks.

The pandemic has forced conversations on how we understand, prepare and manage risks — particularly emerging and complex risks — in a fast-changing environment. During a volatile recovery period, critical questions on risk ownership and governance are being asked, and new approaches to management — within organizations, across the public and private sectors and across borders — are being explored.

Business should use this opportunity and the report to understand, identify, and explore this complex risk ecosystem. It requires considering the potential for intersecting and cascading risks that could impact them in unique ways. These novel threats should be factored into strategy and decision-making, and appropriate responses should be devised. Throughout this process, businesses should also assess the extent to which different units and leaders think about risk, are empowered to reduce it, and collaborate to move toward organizational resilience. This will involve evaluating trade-offs in achieving true agility and resilience, finding the balance between efficiency and robustness, and carefully weighing risk acceptance, mitigation and transfer.

By keeping an eye on potentially high-impact events across the risk landscape, and by evolving into more prepared and responsive organizations, businesses should be able to enhance their resilience and successfully navigate the risks and opportunities ahead.

Brink News

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Carolina Klint is the Risk Management Leader in Continental Europe for Marsh. She also heads Marsh's inclusion and diversity programs in the region. She speaks frequently about values-based leadership, empowerment for breakthrough results and the importance of diversity.

Global Economic Prospects

Executive Summary

Although the global economy is emerging from the collapse triggered by the pandemic, the recovery is projected to be subdued. Global economic output is expected to expand 4 percent in 2021 but still remain more than 5 percent below its pre-pandemic trend. Moreover, there is a material risk that setbacks in containing the pandemic or other adverse events derail the recovery. Growth in emerging market and developing economies (EMDEs) is envisioned to firm to 5 percent in 2021, but EMDE output is also expected to remain well below its pre-pandemic projection. The pandemic has exacerbated the risks associated with a decade-long wave of global debt accumulation. Debt levels have reached historic highs, making the global economy particularly vulnerable to financial market stress. The pandemic is likely to steepen the long-expected slowdown in potential growth over the next decade, undermining prospects for poverty reduction. The heightened level of uncertainty around the global outlook highlights policy makers' role in raising the likelihood of better growth outcomes while warding off worse ones. Limiting the spread of the virus, providing relief for vulnerable populations, and overcoming vaccine-related challenges are key immediate priorities. With weak fiscal positions severely constraining government support measures in many countries, an emphasis on ambitious reforms is needed to rekindle robust, sustainable and equitable growth. Global cooperation is critical in addressing many of these challenges. In particular, the global community needs to act rapidly and forcefully to make sure the ongoing debt wave does not end with a string of debt crises in EMDEs, as was the case with earlier waves of debt accumulation.

Global Outlook.

Following a collapse last year caused by the COVID-19 pandemic, global economic output is expected to expand 4 percent in 2021 but still remain more than 5 percent below pre-pandemic projections. Global growth is projected to moderate to 3.8 percent in 2022, weighed down by the pandemic's lasting damage to potential growth. In particular, the impact of the pandemic on investment and human capital is expected to erode growth prospects in emerging market and developing economies (EMDEs) and set back key development goals. The global recovery, which has been dampened in the near term by a resurgence of COVID-19 cases, is expected to strengthen over the forecast horizon as confidence, consumption, and trade gradually improve, supported by ongoing vaccination.

Although aggregate EMDE growth is envisioned to firm to an average of 4.6 percent in 2021-22, the improvement largely reflects China's expected rebound.

Absent China, the recovery across EMDEs is anticipated to be more muted, averaging 3.5 percent in 2021-22, as the pandemic's lingering effects continue to weigh on consumption and investment. Despite the recovery, aggregate EMDE output in 2022 is expected to remain about 6 percent below its prepandemic projection.

Downside risks to this baseline predominate, including the possibility of a further increase in the spread of the virus, delays in vaccine procurement and distribution, more severe and longer-lasting effects on potential output from the pandemic, and financial stress triggered by high debt levels and weak growth.

Limiting the spread of the virus, providing relief for vulnerable populations, and overcoming vaccine-related challenges are key immediate policy priorities. As the crisis abates, policy makers need to balance the risks from large and growing debt loads with those from slowing the economy through premature fiscal tightening. To confront the adverse legacies of the pandemic, it will be critical to foster resilience by safeguarding health and education, prioritizing investments in digital technologies and green infrastructure, improving governance, and enhancing debt transparency. Global cooperation will be key in addressing many of these challenges.

Regional Prospects.

The pandemic has exacted substantial costs on all EMDE regions. Although all regions are expected to grow this year, the pace of the recovery varies considerably, with greater weakness in countries that have larger outbreaks or greater exposure to global spillovers through tourism and industrial commodity exports. The East Asia and Pacific region is envisioned to show notable strength in 2021 due to a solid rebound in China, whereas activity is projected to be weakest in the Middle East and North Africa and Sub-Saharan Africa regions. Many countries are expected to lose a decade or more of per capita income gains. Risks to the outlook are tilted to the downside. In addition to region-specific risks, all regions are vulnerable to renewed outbreaks and logistical impediments to the distribution of effective vaccines, financial stress amid elevated debt levels, and the possibility that the impact of the pandemic on growth and incomes may be worse than expected over the longer term. In a downside scenario of a more severe and prolonged pandemic, growth would be lowest among the six EMDE regions in Latin America and the Caribbean, the Middle East and North Africa, and Sub-Saharan Africa, reflecting these regions' reliance on exports of oil and industrial commodities, the prices of which would be reduced by weak global demand.

This edition of Global Economic Prospects also includes analytical chapters on the implications of the pandemic for long-term growth prospects, as well as on benefits and risks of recent unconventional monetary policy measures in EMDEs.

Global Economy: Heading into a Decade of Disappointments?

The COVID-19 pandemic has caused major disruptions in the global economy. Economic activity has been hit by reduced personal interaction, owing both to official restrictions and private decisions; uncertainty about the post-pandemic economic landscape and policies has discouraged investment; disruptions to education have slowed human capital accumulation; and concerns about the viability of global value chains and the course of the pandemic have weighed on international trade and tourism. As with previous economic crises, the pandemic is expected to leave long-lasting adverse effects on global economic activity and per capita incomes. It is likely to steepen the slowdown in the growth of global potential output—the level of output the global economy can sustain at full employment and capacity utilization—that had earlier been projected for the decade just begun. If history is any guide, unless there are substantial and effective reforms, the global economy is heading for a decade of disappointing growth outcomes. Especially given weak fiscal positions and elevated debt, institutional reforms to spur growth are particularly important. A comprehensive policy effort is needed to rekindle robust, sustainable, and equitable growth. A package of reforms to increase investment in human and physical capital and raise female labor force participation could help avert the expected impact of the pandemic on potential growth in EMDEs over the next decade. In the past, the growth dividends from reform efforts were recognized and anticipated by investors in upgrades to their long-term growth expectations.

Asset Purchases in Emerging Markets: Unconventional Policies, Unconventional Times.

Central banks in some EMDEs have employed asset purchase programs, in many cases for the first time, in response to pandemic-induced financial market pressures. These programs, along with spillovers from accommodative monetary policies in advanced economies, appear to have helped stabilize EMDE financial markets. However, the governing framework, scale, and duration of these programs have been less transparent than in advanced economies, and the effects on inflation and output in EMDEs remain uncertain. In EMDEs where asset purchases continue to expand and are perceived to finance unsustainable fiscal deficits, these programs risk eroding hard-won central bank operational independence and de-anchoring inflation expectations. Ensuring that asset purchase programs are conducted with credible commitments to central bank mandates and with transparency regarding their objectives and scale can support their effectiveness.

World Bank Group

RCEP: A New Trade Agreement That Will Shape Global Economics and Politics

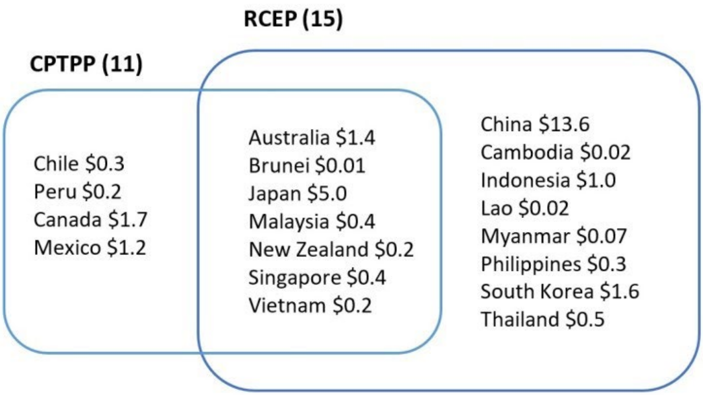
Peter A. Petri, Carl J. Shapiro Professor of International Finance at the Brandeis International Business School;
Michael Plummer, Director of SAIS Europe at John Hopkins

On November 15, 2020, 15 countries — members of the Association of Southeast Asian Nations (ASEAN) and five regional partners — signed the Regional Comprehensive Economic Partnership (RCEP), arguably the largest free trade agreement in history. RCEP and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which concluded in 2018 and is also dominated by East Asian members, are the only major multilateral free trade agreements signed in the Trump era.

Representatives of signatory countries are pictured on screen during the signing ceremony for the RCEP trade pact at the ASEAN summit that is being held online in Hanoi. (Photo by Nhac NGUYEN / AFP) (Photo by NHAC NGUYEN/AFP via Getty Images)

India and the United States were to be members of RCEP and the CPTPP, respectively, but withdrew. As the agreements are now configured (see Figure 1), they forcefully stimulate intra-East Asian integration around China and Japan. This is partly the result of U.S. policies. The United States needs to rebalance its economic and security strategies to advance not only its economic interests, but also its security goals.

Figure 1: Members of RCEP and CPTPP



RCEP'S Economic Significance

RCEP will connect about 30% of the world's people and output and, in the right political context, will generate significant gains. According to computer simulations we recently published, RCEP could add $209 billion annually to world incomes and $500 billion to world trade by 2030.

We also estimate that RCEP and CPTPP together will offset global losses from the U.S.-China trade war, although not for China and the United States. The new agreements will make the economies of North and Southeast Asia more efficient, linking their strengths in technology, manufacturing, agriculture and natural resources.

The effects of RCEP are impressive even though the agreement is not as rigorous as the CPTPP. It incentivizes supply chains across the region but also caters to political sensitivities. Its intellectual property rules add little to what many members have in place, and the agreement says nothing at all about labor, the environment or state-owned enterprises — all key chapters in the CPTPP. However, ASEAN-centered trade agreements tend to improve over time.

Southeast Asia will benefit significantly from RCEP ($19 billion annually by 2030) but less so than Northeast Asia because it already has free trade agreements with RCEP partners. But RCEP could improve access to Chinese Belt and Road Initiative (BRI) funds, enhancing gains from market access by strengthening transport, energy and communications links. RCEP's favorable rules of origin will also attract foreign investment.

RCEP'S Geopolitical Significance

RCEP, often labelled inaccurately as "China-led," is a triumph of ASEAN's middle-power diplomacy. The value of a large, East Asian trade agreement has long been recognized, but neither China nor Japan, the region's largest economies, were politically acceptable as architects for the project. The stalemate was resolved in 2012 by an ASEAN-brokered deal that included India, Australia and New Zealand as members and put ASEAN in charge of negotiating the agreement. Without such "ASEAN centrality," RCEP might never have been launched.

To be sure, RCEP will help China strengthen its relations with neighbors, rewarding eight years of patient negotiations in the "ASEAN way," which participants typically describe, with varying degrees of affection, as unusually slow, consensual and flexible.

RCEP will also accelerate Northeast Asian economic integration. A spokesperson for Japan's Ministry of Foreign Affairs noted last year that negotiations on the trilateral China-South Korea-Japan free trade agreement, which has been stuck for many years, will become active "as soon as they are able to conclude the negotiation on RCEP." As if on cue, in a high-profile speech in early November, President Xi Jinping promised to "speed up negotiations on a China-EU investment treaty and a China-Japan-ROK [South Korea] free trade agreement."

Finally, RCEP and the CPTPP are powerful counterexamples to the global decline in rules-based trade. If RCEP spurs mutually beneficial growth, its members, including China, will gain influence across the world.

America's Options

U.S. policies in Asia need to adjust to the changing realities of East Asia, recognizing the increased role of China, maturing ASEAN integration and America's diminished relative economic influence.

Looking back, the U.S. government's Asia policies during the Trump administration focused on a new Free and Open Indo-Pacific (FOIP) vision. As experts have noted, the principles of FOIP — an open, inclusive, peaceful region — were consistent with established U.S. policy. But the administration's tactics then emphasized isolating China from regional economic networks and prioritized security arrangements centered on the Quad (Australia, India, Japan and the United States).

Meanwhile, FOIP's economic dimensions remained secondary, ranging from modest investments and a plan to exclude China from supply chains to rating infrastructure projects often funded by China. The U.S. approach antagonized ASEAN and other East Asian friends, forcing countries into unnecessary and risky political choices.

Looking ahead, one U.S. option is to continue FOIP in current form with greater multilateral support. The approach of President Donald Trump — minus inflammatory rhetoric — has support in Congress and even in some ASEAN countries like Vietnam. Yet the approach risks sidelining the United States while economic arrangements like RCEP, CPTPP and BRI continue to grow. Without an economic pillar, FOIP will still push countries to choose between economic and security interests.

A second U.S. option is to re-engage fully in regional economic networks alongside an active security role. For example, the United States could join the CPTPP and advocate its rapid enlargement to Indonesia, the Philippines, South Korea, Thailand and the United Kingdom. U.S. markets and technology make such arrangements attractive and, in the long run, might persuade China to join (we estimate big gains if it does). But current U.S. politics appears to offer little support for this approach.

A third U.S. option is to emphasize intensified soft-power engagement combined with narrow but firm security commitments. This approach would build on U.S. strengths and buy time for more ambitious initiatives. It would emphasize vigorous participation in regional forums, people-to-people exchanges, principled advocacy of rules-based trade and a clearly articulated military presence. It would benefit from supportive U.S.-China understandings, no mean feat in the current context.

A version of this piece was originally published by the Brookings Institution.

Brink News

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Michael Plummer has been the director of SAIS Europe since 2014. A SAIS Professor of International Economics since 2001 and the Eni Professor of Economics since 2008, he was Head of the Development Division of the Organization for Economic Co-operation and Development (OECD) in Paris from 2010 to 2012; an associate professor at Brandeis University (1992-2001); and Editor-in-Chief of the Journal of Asian Economics (Elsevier) 2007-2015 (currently Editor-in-Chief Emeritus).

How Did Vietnam and Cambodia Contain COVID-19 With Few Resources?

Manisha Mirchandani, Director of Strategy at Atlantic 57

Health workers collect a child's blood sample at a makeshift rapid testing center in Hanoi, Vietnam, in August 2020. Lacking the resources to mobilize an expansive testing infrastructure, Vietnam relied on a combination of tactics to "box in" the virus. Photo: Manan Vatsyayana/ AFP via Getty Images

This piece — published on August 7 — was BRINK's best-performing article of 2020. Strategist Manisha Mirchandani explored how Vietnam and Cambodia were handling the pandemic so successfully despite little access to resources.

As the coronavirus has ravaged its way across the world, some countries in Asia have shown a remarkable ability to evade its worst effects. As of early August, Cambodia had zero deaths and Vietnam had just six recorded deaths from the coronavirus. [since the piece was published, Vietnam has recorded a total of 35 deaths, while Cambodia has continued to have zero deaths].

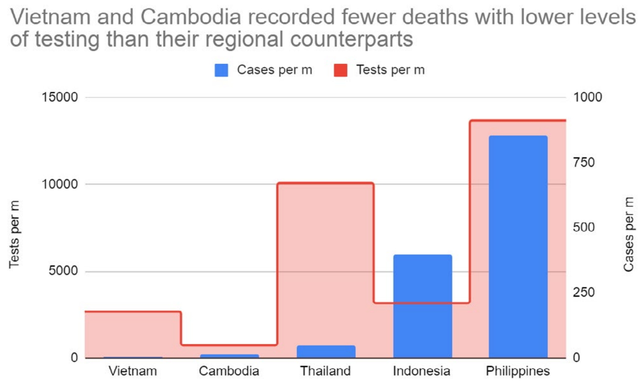
This is in spite of these countries having far fewer resources to respond to the threat, compared to wealthy nations such as the United States and Italy, where the virus has exacted a terrible price.

Not all of Southeast Asia has been as successful in containing the virus' spread: Both Indonesia and the Philippines register amongst the highest deaths in Asia outside of China. So why have Cambodia and Vietnam been so successful? Vietnam has recorded only 500 cases for a population of nearly 100 million (five per million) as of the end of July, while Cambodia has recorded just 15 cases per million at this point.

A Younger Population?

Experts have pointed to a younger demographic in these countries as being a possible inoculating factor, but the virus has not spared the youthful populations of Indonesia and the Philippines. Others say that low testing rates and possible underreporting of cases is hiding the true extent of COVID-19 in these countries. But to date, there has been no risk of health systems in Vietnam or Cambodia becoming overwhelmed by the severity of outbreaks, as we have seen in other countries.

The early success of these countries in responding to the coronavirus shows that an effective response is not dependent on resource availability. Much has been made of the importance of testing to contain the disease, as exemplified by South Korea's strategy to "test, test, test." But lacking the resources to mobilize an expansive testing infrastructure, Vietnam and Cambodia have relied on a combination of tactics to “box in” the virus.



Boxing in the Virus

One tactic has been targeted testing, where health authorities have focused on high-risk individuals or homed in on buildings or neighborhoods where positive cases have emerged. This was combined with extensive contact tracing: In Vietnam, people up to three degrees removed from an infected person were identified and tested for infection.

This was enabled by national guidelines that empowered members of communities — including members of the public, teachers, religious and community leaders — to report public health events. Official tracing efforts were complemented by a mobile app that allows for the reporting of health status and suspected cases and another that notifies users of possible exposure.

Local-level surveillance and the participation of communities have helped early identification of possible outbreaks in Vietnam, as did an approach based on risk of exposure regardless of whether a person exhibited symptoms. This may have been critical in containing COVID-19, given the emerging evidence that asymptomatic people are able to transmit the virus to others.

Once identified, Vietnam had set up the infrastructure to quarantine infected persons and international travelers, minimizing household exposure to the virus; some 200,000 people spent time in a quarantine facility between January and May of 2020. In Cambodia, a network of 2,900 health care workers was trained in January and February to assist detection and contact tracing at the community level.

A Population Used to Combating Epidemics

Having experienced the SARS epidemic in 2003 and bouts of the avian flu between 2004 and 2010, the Vietnamese and Cambodian authorities took the threat of COVID-19 seriously from the beginning. Health was prioritized above economic concerns as each country quickly implemented border controls and enforced the wearing of masks and social distancing. Past experience in combating epidemics may have led to greater public comfort with such measures, and an understanding of the need for decisive action to contain the pandemic. In a March 2020 survey, most Vietnamese (62%) agreed that the government's reaction was "the right amount," indicating a high degree of public support for aggressive measures.

Compliance is also a function of an authoritarian style of governance in both countries, which has allowed for the quick implementation of containment measures and the enforcement of them. In this environment, privacy concerns related to surveillance and contact tracing are given little credence, nor the individual rights of people who were forced into quarantine or had their freedom of movement restricted.

Risk of a Surveillance State

Indeed, there is a risk of the government's public surveillance infrastructure being strengthened and normalized during this period. A state of emergency law being passed in Cambodia will allow for unlimited telecommunications surveillance and the right for the government to control the press and social media, and restrict freedom of movement.

Measures taken so far have worked to control the spread of the coronavirus, but both countries are still vulnerable to subsequent waves. The discovery of the first locally transmitted case of COVID-19 in 100 days in Danang has prompted the evacuation of 80,000 people from the Vietnamese town.

The scale of the response by authorities and ongoing vigilance augurs well for the country to manage any outbreaks. Meanwhile, the health system has stocked up on supplies and equipment needed to withstand a surge of sick patients in case of an outbreak.

Targeted testing and the involvement of the community are critical in responding to COVID-19 where resources are more limited. What is less certain is the extent to which citizen concerns about privacy and individual liberties could become impediments to public trust and their willingness to participate in the response. So far, however, Vietnam and Cambodia have proved to be great examples of how countries with limited resources can successfully hold back the tide of coronavirus.

Brink News

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Manisha is a director of strategy at Atlantic 57 and an Asia specialist. She previously served as Asia analyst at the Economist Intelligence Unit and conducted field research in Myanmar for the United Nations Development Program. She has also authored publications for the Centre for Asian Philanthropy and Society.

Why Place Gender Parity at the Heart of Business Recovery?

Martine Ferland, President and CEO of Mercer

What began as a global health and economic crisis a year ago has evolved into a universal test for societies and economies around the world.

But in all challenges lie opportunities. And one unique opportunity now on the table, amid what the World Economic Forum has labeled the "Great Reset," is the chance for business leaders to anchor economic recovery with new levels of gender parity and workplace equality.

Organizations have an enormous reset button they can engage to completely transform how, where and when people work — it is helpful to women whose responsibilities outside the workplace may otherwise lead them to deprioritize their careers. Photo: Unsplash

The Pandemic Has Intensified Gender Inequality

I recently had the privilege of speaking at a session hosted by the WEF on policies, practices and partnerships needed to advance workplace gender parity. The session provided a productive conversation, highlighting the fact that COVID-19 has sharply exacerbated gender inequality. In particular, the economic upheaval triggered by the pandemic is rolling back hard-won gains in women's labor participation rate and economic empowerment.

For example, women in the U.S. have lost a net total of 5.5 million jobs since February 2020, accounting for 55% of net job loss during the crisis, despite making up slightly less than half of the workforce. Furthermore, on a net basis, all 140,000 U.S. jobs lost in December 2020 belonged to women. Even more affected are women of color, who before COVID, already experienced notable disparities in financial stability and well-being.

Gender Parity Is the Path Forward for Workplaces

Following the WEF discussion, I have been thinking about how the pandemic's recovery phase is likely to open up new doors for prioritizing gender parity. And I believe the "why" behind this opportunity is just too powerful and promising for businesses to ignore.

In recent years, workplaces have increasingly focused on implementing policies that promote gender equality. But in facing the headwinds of COVID-19, placing gender parity at the heart of recovery won't just benefit women's advancement. If public response to the pandemic is any indicator, more gender-diverse leadership will offer businesses a competitive advantage.

When looking at governments' responses to COVID-19, female leaders have certainly held their own. Heads of state such as New Zealand's Prime Minister Jacinda Ardern, Taiwan's President Tsai Ing-wen, Denmark's Prime Minister Mette Frederiksen and Germany's Chancellor Angela Merkel have been lauded for protecting lives and sustaining economic activity with proactive leadership.

With the spotlight on women in leadership, gender parity may finally earn its long-overdue status as a business imperative. As the Women, Business, and the Law 2020 report from the World Bank highlights, "Equality of opportunity is good economics." Indeed, it is estimated that women's lagging participation in employment and entrepreneurship costs the global economy about 15% of GDP.

Leaders: Put Words Into Action

The events of the pandemic have forever changed the ways businesses operate and drive growth. Leading purposefully and combining empathy and economics, balancing the needs of people and the pursuit of profits has delivered results. Gender parity is critical for achieving this equilibrium.

At the same time, consumers expect businesses to "walk the talk" and will push aside those who do not. In too many instances, there is a striking discord between what organizations say and what they do.

For example, while 81% of companies say they are focused on diversity, equity and inclusion, only 42% track progress, according to Mercer's Let's Get Real About Equality report. Meanwhile, 79% of companies say there is equal access to promotion, but only 41% track internal mobility by gender. How can you realize success without tracking it? The accountability is missing. Furthermore, only 44% of companies report that women are equally represented in roles with profit and loss (P&L) responsibilities, which are crucial to advancement and job security in many companies.

The will to advance gender parity is clearly there. But are the actions taken in earnest to effect sustainable change?

A Teachable Moment

Despite its cataclysm, the pandemic offers unprecedented teachable moments. The lessons learned will help save lives and strengthen economies. Even though the past year has triggered significant setbacks for gender parity, this is also a teachable moment for leaders to turn the tide. Organizations have an enormous reset button they can engage to completely transform how, where and when people work. It's an attractive option for many workers regardless of gender, but can be especially helpful to women whose responsibilities outside the workplace may otherwise lead them to deprioritize their careers.

By understanding why gender parity should be at the root of COVID-19 recovery, leaders can truly realize the value women bring to organizations, whether as managers, employees, board members, customers, vendors or members in the communities they operate.

Leaders can also learn how to fully harness their willingness to hold themselves accountable, champion equality and track progress. With more rigor in applying metrics, organizations will realize what works best in promoting gender parity and implement best practices that truly make a difference at the end of the day and for years to come.

Brink News

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Based in New York, Martine Ferland is president and CEO of Mercer and vice chair of Marsh & McLennan Companies.

Coronavirus Is Changing Global Supply Chains in Unexpected Ways

Richard Wilding, Professor of Supply Chain Strategy at Cranfield School of Management

In the fallout from COVID-19, companies need to be ready to be part of the wider conversation on the future of societies and the role of business. Photo: Tolga Akmen/various sources/AFP/via Getty Images

Until now, business models for Industry 4.0, based around automation, autonomous systems and artificial intelligence, have been largely theoretical. The technology has been there without the determination to take on the social and economic shocks involved with implementation.

However, one of the lasting impacts of the COVID-19 crisis is likely to be an acceleration toward the automation of systems and near-shoring. We may see shorter, simpler supply chains with new levels of resilience built in — as well as the all-important new levels of flex and adaptability in strategy and management.

The Fragility of Existing Supply Chains

The pandemic has put the actual nature of global supply chains, integral to the vast majority of businesses, into sharp relief. Free and open movement of goods and services is a fine principle — but loaded with risk, and that risk is accentuated at every stage when there is reliance on people.

Initial disruption to businesses from COVID-19 came in China (and then Italy), affecting the infrastructure and networks of supply chains internationally. Roadblocks and factory closures in a single region led to empty shipping containers stacking up in Chinese ports and shortages of containers in other parts of the globe.

Simply switching away from China for a period was a short-term answer for some, where possible, but ultimately it only changed the risk profile of supplies.

Then came the need to operate with reduced numbers of staff, which affects all fundamental supply chain processes. Most recently, the information systems element has also been exposed. In terms of capacity, the need for human input is clear: Phone lines in London have had terrible quality, for example, and there's a need for face-to-face contact to validate legal documents.

Business Needs to Be a Part of Policy Decisions

All of these issues with business and their supply chains have accentuated the importance of an underpinning of 4.0 mechanisms with a functionality for commerce and economies as a whole that is independent of constant — and inevitably less reliable

— human agency. Nike has been talking for a number of years about its plans to digitize its supply chain and introduce 1,200 automated machines and near-shoring in the U.S., meaning lead times are cut from 60 days to 10 days. The company sees a big reduction in shipping expenses, import duties and risk of over-production. It amounts to 30% fewer steps in the process and provides more resilience.

It is good for Nike's bottom line and for sustainability impact, but the social implications are grim: The company has talked in terms of 50% fewer employees within one specific supply chain, thus leading to potentially 500,000 job losses, mostly from factories in Asia.

There will be no pain-free separation between the old and new ways of running supply chains.

Technologies like autonomous systems and additive manufacturing can't simply be plugged into vacant spaces. It's a messy, people-filled environment that means a tangle for technology in terms of implications for corporate strategy, risks and reputation.

So companies will need to be ready to be part of the wider conversation on the future of societies and the role of business. This applies in the context of the fallout from COVID-19, in the economic recovery phase and in the longer-term for balancing situations with the potential to increase the gap between haves and have-nots.

A Return to the Hierarchy of Needs

As always in business, there are winners and losers in any changing set of circumstances. In this case, the lines of demarcation are being drawn between those enterprises that deliver necessities and those that offer luxuries.

The lockdown period has meant a return by populations to focusing on the base areas of Maslow's hierarchy of needs: food, housing, health care products and, in the 21st century, our need for WiFi and digital connectivity.

There's the likelihood that in the post-COVID-19 period, at least initially, consumers will feel psychologically attached to these behaviors. Having become used to home delivery, associating them with convenience and safety, it may well be that these models persist and become a larger, more established part of consumer expectations. But there have been associated cost implications for business, with so many home delivery services being provided free or at an uneconomically viable low cost.

Again, that means further impetus for automated alternatives to people in stores and warehouses who are employed for picking and packing.

Flexibility Will Be Critical

The medium-term priority for businesses across sectors will be adaptability.

Companies that understand their capabilities and are able to be flexible will survive in the best shape. We've already seen Louis Vuitton and Brewdog switch operations to create hand sanitizer products because they have the basic capability to put liquids into bottles. Automotive firms are making respirators.

An idea that's gaining increasing traction in logistics is bimodal supply chains, where "mode one" is all about the traditional approach — lean efficiency, mitigating risks — based on there being a good level of predictability; and "mode two" is the need for agility, speed and exploring new opportunities.

For so long, we've been used to supply chains based around mode one with two as a secondary, occasional feature. More companies are going to need to become bimodal, with mode two being their priority, quickly recognizing possibilities and building the ability to solve problems posed by the unexpected.

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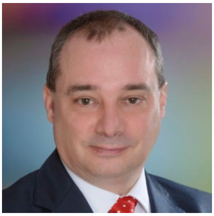
About Author



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Richard Wilding OBE is the professor of supply chain strategy at Cranfield School of Management. He is also the chair of the Chartered Institute of Logistics & Transport (UK), and recognised as one of the world's leading experts in logistics and supply chain management.

The Pandemic Will Structurally Change the Global Economy More Than We Think

Alicia García-Herrero
Senior Fellow for Bruegel and Chief Economist for Asia Pacific at Natixis

Those who say there are no letters left in the alphabet to describe the evolution of the world economy after the pandemic are absolutely right. It is abundantly clear now that we cannot expect to see a rapid V-shaped recovery — nor should we expect a complete stagnation or a L-shaped recovery.

A businessman walks past The New York Stock Exchange. The problem with the economic recovery from COVID-19 is not so much the sudden collapse in activity, but the negative impact that follows. Photo: Johannes Eisele/AFP via Getty Images

The Square Root-Shaped Economy

The newest version of recovery, the K-shape, reflects the increasing disparity between the winning and losing sectors, including the middle class.

So rather than suggest a letter, I would like to call for a different shape recovery in a post-COVID world: the square root. A square root begins with a strong upswing, much like the one we are experiencing now, even as the pandemic still lingers.

However, this rapid recovery is immediately followed by a structural slowdown. In other words, the problem is not so much a sudden collapse in activity, but the negative impact that follows.

The big question is: Why would the pandemic bring lower growth? There are several reasons.

4 Reasons Why COVID Brings Lower Growth

Firstly, companies will be less profitable and will react by cutting fixed asset investment.

Secondly, the distribution of income will worsen worldwide. In fact, the pandemic has caused a serious deterioration in business profitability throughout the world. Similar to the global crisis in 2008, companies will want to recover their profitability and profits, for which they will have to reduce employment and wages. This will worsen the already battered distribution of income worldwide.

In other words, greater downward pressure on unit labor costs, and therefore on household purchasing power, seems inevitable. To make matters worse, the asset price bubbles stemming from ultra-lax monetary policies are bound to increase the divide between the working class and those able to invest in financial assets.

Thirdly, state intervention in the economy is leading to a much larger share of zombie companies. The fact that interest rates are to remain low will make it possible for governments to continue to finance such unproductive companies and their related misallocation of savings.

The fourth potential negative consequence is that global financial instability could be one of the key unintended consequences of the pandemic, due to increasingly volatile flows in emerging economies and doubts about the role of the dollar as a reserve currency.

Unstable Capital Flows

The combination of ultra-abundant global liquidity and fluctuations in risk aversion can lead to highly unstable capital flows, which remain crucial for many emerging countries. And the more an emerging country depends on external financing, the more costly this situation can be in terms of volatility of capital flows and economic performance.

Another form of financial instability may come from the growing doubt surrounding the role of the dollar in the world economy, stemming from the lack of U.S. leadership, the sharp increase in U.S. external debt and the ultra-expansionary monetary policy of the Federal Reserve.

China is well aware of the importance to U.S. long-term hegemony of the USD as the reserve currency, and will have no qualms about using the weapons it has at its disposal, to weaken the role of the dollar in the long run.

The Hiatus in Education

The fifth and final reason is driven by the loss of human capital due to the discontinuation of education programs globally. There is bound to be a reduction in fertility rates for many years, given the negative impact of the pandemic on household income for years to come.

If we analyze each of these points in greater detail, lower growth in the medium term seems unavoidable and with it, the continuation of the ultra-low interest rate environment we are in. The loss of human capital, as well as loss of financial capital due to the sharp drop in investment, in addition to the destruction of business fabric due to bankruptcies, are all bound to have lasting effects, which demand policies cannot do much about.

Social Reform Needed

Any cushioning effect must come from innovation and changes in societal norms, including faster digitalization and, possibly, the further greening of economic activity. Still, the efforts which would need to be made for technological and societal innovation to completely offset this trend towards lower potential growth look Herculean to me.

In summary, the economic impact that we can expect from this pandemic in the medium term is not promising for companies, families or governments. It's hard to think of a more devastating shock to the world economy and not just because of the immediate effects.

It is time to rethink many of the basic principles of our economic model to mitigate these impacts.

Brink News

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Alicia García Herrero is chief economist for Asia-Pacific at Natixis and a senior fellow for Bruegel. Previously she was chief economist for Emerging Markets at Banco Bilbao Vizcaya Argentaria. She is a non-resident fellow at Cornell's emerging market research centre and Senior Research Fellow at El Cano Royal Institute for International Relations. She is currently adjunct professor at City University of Hong Kong, visiting faculty at University of Science and Technology as well as at China-Europe International Business School.

19th Ministerial Conference of Central Asia Regional Economic Cooperation

Keynote address by Masatsugu Asakawa, President, Asian Development Bank, at the 19th Ministerial Conference of Central Asia Regional Economic Cooperation, 7 December 2020.

Introduction

Excellency President Ashraf Ghani, Minister of Finance Mr. Arghandiwal, Ministers and delegates, development partners, and distinguished guests:

Welcome to the 19th Ministerial Conference of the Central Asia Regional Economic Cooperation (CAREC) Program. I extend my appreciation to the Government of Afghanistan for hosting this year's conference, which I am participating in for the first time as ADB President—and which is being held virtually for the first time since CAREC was founded in 2001.

We are honored by the presence of President Ashraf Ghani, which shows the importance he attaches to promoting economic cooperation in the region.

Today's event focuses on "People-Centered Regional Cooperation in the Post-COVID Environment," a topic which is timely and more important than ever.

While some worry that globalization will retreat after the pandemic due to travel bans and trade restrictions, I strongly believe that globalization will return; but it will take a different shape. I want to clearly express ADB's commitment to continue to promote stronger regional cooperation and integration and to champion the spirit of open regionalism. This is a commitment to help our developing members adapt to the new and evolving forms of globalization while also addressing inequalities and ensuring peace and prosperity for all.

I believe that CAREC embodies this spirit of open regionalism, and that it offers us an indispensable platform to address our common challenges. These challenges include mitigating economic hardships faced by the citizens of the region, including vulnerable migrant workers who have lost their jobs, as well as their families who have lost a major source of support from remittances. There are also common needs for enhancing public health, including making safe and effective vaccines available to all; and for strengthening the resilience of populations to future crises.

ADB's response to the COVID-19 pandemic in the CAREC region

Let me now share with you how ADB is responding to the immediate crisis caused by the coronavirus disease (COVID-19) and its longer-term impacts. In mid-April of this year, ADB responded swiftly and decisively to the pandemic by launching a comprehensive $20 billion package to help our developing members address the impacts of COVID-19 on health, livelihoods, and economic activity.

ADB's support consists of: (i) grants and technical assistance to procure medical equipment and train health personnel; (ii) quick-disbursing budget support through a new financing instrument called CPRO—the COVID-19 Pandemic Response Option—which is helping governments to scale up their countercyclical expenditures; and (iii) direct support to private businesses, including bolstering trade and supply chain finance.

$3.5 billion out of our $20 billion in COVID-19 assistance package has been directed to CAREC countries so far. Our support includes an emergency project in the Kyrgyz Republic to improve services at eight hospitals with personal protective equipment, test kits, and devices for contact tracing. Our CPRO program in Georgia is helping the government to provide income support for 550,000 employees and self-employed workers who are facing temporary or permanent job losses, as well as cash transfers for 41,500 persons with disabilities. We have also mobilized significant additional financial resources through cofinancing to CAREC countries totaling about $2.1 billion from development partners such as the World Bank and the Asian Infrastructure Investment Bank.

We are now working intensively to develop a new mechanism that will ensure speedy and equitable access to safe and effective vaccines throughout developing Asia, especially for poor and vulnerable populations. Our goal is to help our developing members formulate national COVID-19 vaccine allocation plans; build strong vaccine delivery systems; and purchase safe and effective COVID-19 vaccines in a timely manner. We will implement this in close collaboration with the COVAX Facility, other multilateral development banks, and UN agencies.

CAREC's continued role in supporting regional cooperation

Let me now turn to the CAREC program, which has actively contributed to the region's development for two decades—and which will remain crucial to its recovery after the pandemic.

Since its founding, CAREC has financed 208 regional infrastructure and trade projects worth $39.2 billion. Of this, $14.7 billion in financing has come from ADB; $15.8 billion from other development partners; and $8.7 billion from CAREC governments. Even with the unprecedented challenges of this year, CAREC has maintained momentum in implementing the strategic framework we adopted in 2017 to advance regional cooperation, known as CAREC 2030.

Allow me to summarize some of our key achievements this year in 2020.

First, we have further strengthened regional connectivity by investing in high-quality infrastructure projects. For example, a new project will expand energy trade between Afghanistan and Uzbekistan to provide 500,000 households and businesses with reliable access to electricity. Another cross-border investment project will strengthen connectivity between the PRC and Mongolia, to enhance living conditions for people in border areas through improved access to economic opportunities and health services.

Second, CAREC is beginning to promote new priority areas to support people-centered economic recovery through two important strategies that the Ministers will consider today. The CAREC tourism strategy will promote the development of safe tourism destinations, helping to support employment for millions of people; while the CAREC gender strategy will support equal access to economic opportunities for women and girls, and give them a voice in decision-making processes.

And third, in association with the CAREC Institute, CAREC is strengthening its role as a catalyst for knowledge work and policy dialogue in further support of regional and global agendas for cooperation. For example, CAREC completed a study on regional health cooperation, identifying opportunities to mitigate the spread of diseases and to improve health services for migrants and border communities. To advance policy dialogue, senior finance ministry officials from CAREC countries recently participated in an ADB-IMF-World Bank forum to discuss countercyclical fiscal policy measures to mitigate COVID-19.

Innovation in regional cooperation and integration

Let me now emphasize the crucial role that innovation and technology must play in promoting cooperation as the region transitions to a post-pandemic new normal. Two areas are critical here.

The first is digitalization. The CAREC region must strengthen digital connectivity and the use of digital technologies, so that regional and global initiatives can expand their reach. The development of digital solutions is underway that can grow e-commerce and tourism and automate border inspections in order to facilitate trade. There is also huge potential for adopting technologies that improve the monitoring of cross-border health threats; enable the use of telemedicine and online education; and raise food safety standards. To maximize the value of these advances, we will also work together to address the digital divide and strengthen cyber security. I am pleased that CAREC is starting a technical assistance program that will help integrate technology and develop startup ecosystems that offer digital solutions for regional challenges.

The second area involves the role of the private sector as a driver of innovation, which can further accelerate regional cooperation. A CAREC Regional Infrastructure Projects Enabling Facility is being prepared to attract private participation and innovative financing solutions for regional infrastructure projects. ADB is also helping to pioneer a regional disaster risk financing mechanism, which will enable CAREC countries to work effectively with private insurance companies to mitigate earthquakes, floods, and infectious diseases-related risks.

Closing

Ladies and Gentlemen, as the world emerges from the pandemic, we must all come together to revive our regional cooperation efforts with a spirit of open regionalism, so that CAREC can seize the opportunities of renewed globalization. In particular, let us expand connectivity, rejuvenate trade, and embrace innovation and technology in ways that put the people of the CAREC region at its center.

I want to conclude by assuring you once again that ADB is fully committed to supporting our member countries and partners in these efforts at this crucial time for the region.

Thank you.

ADB

What Does 2021 Hold for Global Trade?

Nicolas Lamp, Assistant Professor of Law at Queen's University

A cargo ship loaded with containers makes its way from a port in Qingdao, China. The biggest open question regarding trade is: Will the Biden administration be able to achieve some sort of new grand bargain with China? Photo: STR/AFP via Getty Images

How will the expected economic recovery impact trade? Will the Biden administration maintain current President Donald Trump's tariffs on China? Has globalization been fundamentally altered by the pandemic? BRINK invited Nicolas Lamp, a global trade expert based at the Faculty of Law of Queen's University Canada, to share his thoughts on what trends to expect in 2021.

LAMP: The concept that has come to the forefront in the pandemic is the idea of resilience. Initially, this took the form of an urge by countries to repatriate production so that they are never again in a situation like many were at the beginning of the pandemic, when they had to rely on foreign suppliers for certain key materials.

But resilience doesn't necessarily mean that you repatriate; it could also mean that you try to diversify your suppliers, or that you engage in stockholding. If there is a movement toward greater reshoring or nearshoring of production, that would definitely have an impact on trade.

There are many who are skeptical that the supply chains can really be brought back on a significant scale. We should also keep in mind the longer-running trends already in place toward less trade, in particular with China becoming less focused on trade and more focused on domestic consumption, as well as the larger estrangement between China and the West.

The Impact of Regional Trade Deals

BRINK: Do you think we're going to see more regionalization, with a higher proportion of trade occurring within regions rather than between them?

LAMP: I do think that we already have this; we have Factory Europe, Factory North America and Factory Asia. But some policies are strengthening the trend toward regionalization, for example, the USMCA in North America.

There was quite a bit of skepticism about whether the USMCA would really have an impact on supply chains, but it turns out that, as far as we can see, particularly here in Canada, the higher regional value content requirements for autos in the USMCA seem to be having an impact, as car manufacturers have announced major new investments in Ontario, and GM is even reopening an old plant.

Under NAFTA, 62.5% of a car had to be produced within the NAFTA countries in order for it to count as originating within NAFTA. The USMCA brought that up to 75%, so if you source major components of a car from China or anywhere else outside of the USMCA, you will not meet that regional value content requirement.

BRINK: What about the Regional Comprehensive Economic Partnership (RCEP) — are we going to see a similar pattern of regionalization in Asia?

LAMP: While the economic impact of RCEP remains a matter of debate, given the pre-existing FTAs among the parties, the adoption of common rules of origin and the provisions on regional cumulation are clearly a step toward greater integration in Asia, though it would be a bigger one if India were part of the agreement.

A key difference with the USMCA is that the USMCA was essentially an attempt to draw up the drawbridges toward the outside world, at least with respect to trade in autos and auto parts. You don't have an equivalent to that in the RCEP.

BRINK: What about the Trans Pacific Partnership (TPP)?

LAMP: We're in the interesting situation in which the U.S. may try to rejoin the TPP and, at the same time, China has made noises about being willing to join the TPP.

One may question whether China is serious about this, because of some of the provisions in the TPP, especially when it comes to state-owned enterprises, may be hard for it to swallow. However, the real underlying question is whether there's going to be some sort of grand bargain between China and the United States, which would be necessary for any new agreement to accommodate these two great powers.

Such a bargain could take the form of both of them joining the TPP. It could take place in the form of a bilateral "Phase Two" agreement. Or it could be reflected in renewed engagement in the WTO.

The Move to Zero Emissions and Global Trade

BRINK: There's a lot of talk of the possibility of peak oil and moving toward zero emissions. Do you see that having a significant impact on value chains and global trade?

LAMP: That's definitely possible. We've talked about border tax adjustments for a long time, but it's not really been implemented on any scale by any major trading country. However, the European Union seems to be finally getting serious about their carbon border tax adjustment. And Canada just announced that it wants to hike the carbon tax to $170 per ton by 2030, so the issue is bound to become more politically important for Canada as well.

The concern for any country that implements an economically significant price on carbon is carbon leakage: the possibility that companies will move their production to other countries where they face a lower cost for the carbon.

To stem carbon leakage, countries can levy the equivalent of the carbon tax on imports at the border. While this can be done legally, it could still spark considerable trade friction, if only because it raises questions about the equivalency of what the different countries are doing on climate change.

From a climate perspective, it will be good to have these conversations about different systems and whether they impose an equivalent cost on carbon. If large markets move ahead with a carbon price, and then impose it on imports as well, that could have a spillover effect on other countries, which would be very positive from a climate perspective.

How Will President-Elect Biden Treat President Trump's Trade Legacy?

BRINK: If you were to predict a surprise in the global trading system in 2021 that people are not thinking enough about, what would you have in mind?

LAMP: What's really going to be interesting to see is the reassessment of President Trump's trade legacy that's going to happen.

At the moment, President Trump is still seen mostly as a wrecking-ball, but over time, I think we will realize that the effect of some of what he did was more like a catalyst, where he released longstanding pressures that have now broken into the open and that can't be put back in the box. That is particularly the case for the relationship with China.

The relationship with China has at least three important aspects that we need to distinguish: the first is the national security dimension, on which there is broad bipartisan agreement in the United States. Those security concerns are going to be the same for the Biden administration as they were for the Trump administration. I therefore believe that we are going to see some limited decoupling continue in the relationship between the U.S. and China.

The second dimension is that of economic and technological competition. This dimension is hard to disentangle from the security dimension in many ways, but some actions of the Trump administration seem designed to stymie China's economic rise and technological progress even in ways that would not be strictly necessary from a security perspective.

There are some signs that the Biden administration will take a less aggressive path and put more emphasis on strengthening the United States' own capacity than on holding China down.

Where Is the US/China Relationship Heading?

The third dimension, which hasn't gotten quite as much attention, is the legal relationship between the U.S. and China as it is embodied in the WTO. The problem is that China still has much higher bound tariffs in the WTO than the U.S. The average bound tariff for China is 10%, for the U.S., it's 3.4%. There's really no way for the U.S. to bring China tariffs down to its level in a regular WTO negotiation, because it simply does not have enough bargaining ammunition.

What the Trump administration did by hiking all these tariffs regardless of WTO rules was to give that U.S. leverage. The tariffs are illegal under WTO law, so the leverage can't be used in a regular WTO negotiation, but it could potentially be used somehow to get a new grand bargain with China, perhaps following the climate model, where former President Obama and President Xi Jinping came to an agreement bilaterally about how they would go forward, which then allowed the Paris Agreement to come together. Something similar is needed in the trade sphere.

For me personally, that is the biggest open question: Will the Biden administration be able to use all the ammunition that the Trump administration has given it, including the tariffs that are still in place, to achieve some sort of new grand bargain with China?

Brink News

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Nicolas Lamp joined the Faculty of Law at Queen's University as an Assistant Professor in 2014. In 2020, he was cross-appointed to the Queen's School of Policy Studies. He also serves as the Academic Director of the International Law Programs, an eight-week summer course that Queen's Law offers at the Bader International Study Centre at Herstmonceux castle in England during the summer term. Since 2019, he has also been the Director of the Annual Queen's Institute on Trade Policy, a professional training course for Canadian trade officials that is hosted by the Queen's School of Policy Studies.

The 6 Keys to Business Forecasting in the COVID-19 Era

Ugur Koyluoglu, Partner and Vice Chairman of Financial Services Americas, Oliver Wyman

People working in the offices in the business district of Paris, on the fourth day of a lockdown aimed at containing the spread COVID-19. When reopening, businesses need to factor in undetected COVID-19 cases. Photo: Alain Jocard/AFP via Getty Images

Companies have never had to deal with a crisis like the coronavirus recession. Deciding when and how to reopen businesses after the first big wave was only the beginning; managers now are trying to solve a jigsaw puzzle of subsequent waves of infections and local lockdowns. While approved vaccines are providing hope, their slow rollout is a painful reminder that dark days lie ahead.

Yet while COVID-19 impacts almost all aspects of the economy, most businesses still don't have a solid understanding of the underlying forces driving the spread of the virus or how to model for them. Even now, months into the pandemic, executive committees in a range of industries have been forced to rethink return-to-office schedules, re-assess demand predictions, redraw their supply chains or revise their financial targets (again).

The key to business forecasting during these unprecedented times is to factor in the six most important drivers of COVID-19 transmission. Four of them are epidemiological: undetected cases, "nonstationary" human behavior and vaccination roll-out, "heterogeneity," and the mixing of people throughout society. The other two are purely statistical: mathematical assumptions on various unknowns and, yes, general randomness.

Taken separately, each of these factors can help businesses improve their planning to some extent. Those that are able to account for all six are developing much sharper forecasts and smarter scenario analyses that set them up to better navigate through the coronavirus recession.

Undetected Cases

The first step in forecasting is factoring in undetected COVID-19 cases. Medical studies show there is a much larger volume of undetected cases than detected ones, whether they be asymptomatic infections, false negatives or insufficient testing. The ratio of undetected to detected cases differs by region and over time. The U.S. average is currently 1.8 to 1, according to Oliver Wyman estimates. But while Miami has close to double the infection rate per capita compared with New York City based on detected cases, Oliver Wyman estimates that New York City has more than twice the infection rate per capita based on the total of detected and undetected cases. So to focus only on the number of reported cases is to see only the tip of the iceberg.

Instead, businesses should monitor the estimates for undetected cases so they can recognize when immunity levels rise in certain regions, and therefore become more comfortable with bringing people back to offices. Some financial services firms in New York, where COVID-19 transmission and undetected cases are way down from the spring peak, have been able to bring back a larger number of employees to the office based on this type of immunity analysis.

'Nonstationary' Human Behavior

The next step is to consider how human behavior is changing in response to the virus and how the number of people still susceptible to the disease is declining with vaccinations. When COVID-19 began to spread, individuals made substantial changes to their routines, such as avoiding crowds, restaurants and gyms and using personal protective equipment. These actions were "nonstationary," meaning they changed over time and are likely to continue to change in the future. The behavioral responses aren't uniform — masks are being worn religiously in many regions, while residents of some areas are burning them in protest. Bars are packed with customers one day and light the next.

Taking these nonstationary behaviors into account can give companies a major leg up in planning, seizing opportunities and controlling costs. Several retailers have developed more accurate demand and store-traffic predictions by monitoring changes in mobility. This has allowed them to right-size their staffing to accommodate that traffic, managing costs and improving profitability.

Finally, as more individuals become immune (if only temporarily) to the virus through vaccinations and infection, the combined effect creates more protection against virus transmission throughout the society.

Heterogeneity

Businesses also should consider the ways that groups of people of different ages and in different settings such as work, home and school interact. Some people commute to work using public transportation, while others are retired and stay mostly at home — and COVID-19 spread rates vary greatly among those groups. In the United States, the CDC has outlined a sequential vaccination strategy starting with health care workers and the most vulnerable.

Such differences in behavior naturally slow the spread of COVID-19 — the most active and least cautious individuals in society get the virus early and become immune, while those who are less active and more cautious are less likely to contract the virus. This analysis helps pharmaceutical firms in vaccination plans: They plan to vaccinate frontline health care workers first, because they are the most exposed to the virus and interact the most across different groups of society. At the same time, providing immunity to the most vulnerable will reduce the strain on our health care system and, most important, reduce the death toll.

Mixing in Society

Another related step in planning during the pandemic is to understand the phenomenon of mixing in society. A big outbreak starts with smaller clusters before it spreads broadly. Colleges in the United States, for example, experienced numerous clusters last fall as students returned to school. The extent to which those students interacted with the surrounding towns — say, going to restaurants or doctors' offices — determine the severity of the outbreaks and the damage they do to the local economy.

Businesses that recognize the negative potential of mixing are springing into action when a cluster develops to ensure that mixing remains minimal and their operations remain as robust as possible. One South Korean company, for example, successfully contained a coronavirus outbreak by identifying the person at the center, testing everyone who came into contact with the worker and imposing tighter quarantines. Reducing mixing helped limit the spread of the virus both throughout the workforce and beyond, allowing the business to remain open during the pandemic.

Unknowns

The final two steps in forecasting stem from the world of statistics. The first is accounting for unknowns: Are there factors for which no one can reasonably estimate the outcome? Businesses that control for them by simulating a wide range of assumptions are far more successful in planning for the future.

The massive unknown of how many people will choose to use approved vaccines affects demand scenarios for companies across virtually every economic sector, since vaccinated people will feel more comfortable participating in all aspects of the economy. Pharmaceutical firms have begun projecting wide ranges of COVID-19 spread for the next 10 years along with vaccine coverage and efficacy assumptions. That's allowing them to better predict demand for their products and formulate their financial, production and distribution plans.

Randomness

Finally, companies have to assess the flukiest factor of all: pure randomness. Some events simply aren't predictable, and that volatility is especially critical in modeling COVID-19 spread. One unexpected random event can have a massively outsized effect. Forecasts that incorporate the chance of randomness are better able to understand the scope of the problems and solutions.

For example, hospital managers have been seeing sudden, random surges in demand for their non-COVID-19 services based on volatile COVID-19 patterns. One consequence of that randomness is that they are fielding many more digital appointments than ever before. To plan for future deluges, many are now building in more digital capabilities and considering other ways of doing business that will endure long after the COVID-19 crisis.

Bottom Line

Modeling all these critical factors is no easy task. But business leaders who can consider them separately and together will be better equipped to navigate the worst pandemic in a century.

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Ugur Koyluoglu is a partner with Oliver Wyman, based in New York. He is currently Vice Chairman for Financial Services Americas, leading content development. Prior to this role, Ugur led Americas Finance & Risk, Public Policy, and Corporate & Institutional Banking practices, and continues to steer the firm's high-impact, corporate finance and risk management projects for financial institutions across the globe.

What Does Brexit Mean for the EU?

Alexander Privitera, Head of European Affairs at Commerzbank AG and BRINK Columnist

Britain's Prime Minister Boris Johnson (L) is welcomed by European Commission President Ursula von der Leyen (R) in the Berlaymont building at the EU headquarters in Brussels on December 9, 2020. Photo: Aaron Chown/POOL/ AFP via Getty Images

Since 2016, the EU has had two clear priorities when dealing with Brexit, namely: to be able to survive without the U.K. and to protect the single market. To achieve these two, a third priority was necessary: the U.K. had to be stopped from succeeding in its "have your cake and eat it too" strategy.

Having Your Cake and Eating It Too

The U.K. side had to realize it was not going to be possible to remove inconvenient political and bureaucratic obstacles and retain all privileges and advantages it had enjoyed over five decades.

From the very beginning of the negotiations, it became clear to the EU side that achieving this would not be easy.

Among EU negotiators, the U.K. side was seen as delusional at best in its efforts to undermine the cohesion of the bloc whenever possible. It took years to convince various counterparts in Downing Street that trying to make separate deals with EU powerhouses such as Germany or France was not going to work.

The only negotiations that were going to take place would be with the EU commission's Michel Barnier and his team. And success could only be achieved if the negotiations took all three objectives into account. They could not be disentangled. Any deal with London had to withstand a simple test: Are member states better off inside or outside the bloc? The answer had to be an unequivocal "only inside."

Securing the Single Market

Even the recovery fund, forged under the economic pressure caused by the COVID pandemic, should be seen as part of the European Brexit strategy, at least in part. The health emergency has the potential to cause greater fragmentation, both politically and economically. It could still strengthen nationalistic, populist forces, especially in the absence of effective common responses to the pandemic.

Seen from that perspective, the U.K. government under Prime Minister Boris Johnson had to be perceived as a potential Trojan horse for all anti-EU forces, both from within the bloc, as well as outside, such as in the U.S. With U.S. President Donald Trump defeated by voters, this danger has receded, at least for the next few years.

However, in Brussels' view, in the long run, the cohesion of the bloc can only be preserved if the second objective, i.e., the protection of the single market, can be secured. Not surprisingly, Brussels excluded services, including financial services, from the negotiations with London.

What to Do About Financial Services?

The gaping hole left by that omission will potentially have much deeper repercussions than avoiding long truck queues in Dover and in Calais. Trading in goods is important, no doubt, but the future of economic growth in Europe and the U.K. lies elsewhere.

Financial services now hope that the EU and U.K. can build on the trade deal and agree on common supervisory standards. A memorandum of understanding on future cooperation on financial services should be drafted by the end of March, but it won't be as binding as a treaty. Furthermore, the arrangement, if achieved, will be a moving target, based on the concept of equivalence, forcing both sides to reassess constantly whether their regulatory regimes are still aligned or not.

Of course, when it comes to banking regulation, international standard-setting bodies, such as the Basel Committee on Banking Supervision, not Brussels, have been at the center of regulatory changes achieved in various jurisdictions over the past decade. The result is, in fact, a large degree of harmonization in banking regulation, notably among the U.S., the U.K. and the EU.

However, for a financial sector as closely integrated in the fabric of the European economy such as London's, Basel is not a substitute for Brussels. Moreover, given the structural changes taking place because of the accelerated digitization of services and financial services, profound regulatory changes are to be expected in coming years. How equivalent to the EU will London then be? Will there be a race to the bottom?

Seizing Control

Against this uncertain backdrop, it should not be too surprising that the EU has already started to seize control of parts of the financial sector's activities, namely in share trading — a key emblem of London's financial markets.

The ease with which this happened over the past few days could encourage Europe to pursue yet more business. Before the end of the transition period, the main concern regulators had was about financial stability. It was for that reason that London's clearing of derivatives had been granted temporary equivalence with EU rules until June 2022. Now even that could soon end up on the chopping block, as the EU will, no doubt, be tempted to reassert greater control over how its economy is funded.

For all of the questions regarding financial services, the trade deal does nothing to eliminate or even mitigate uncertainty. Work on that large file is only starting.

Even more important is what the EU plans to do with the so-called data economy. The commission has recently unveiled ambitious proposals that, if turned into legislation, could result in profound changes to how the tech sector operates within the bloc.

The Greening of the Economy

This is an objective both sides share. Achieving it will also have long-lasting repercussions on how the two economies evolve over the next years. The transition to a green economy will be accompanied by disruptive regulatory changes. How closely will the U.K. and EU coordinate? It is an open question.

It is interesting that the entity that will govern the trade deal will be a "partnership council," supervised jointly by a U.K. minister and a European commissioner. This council can make decisions that will bind both the U.K. and EU. Its deliberations can be confidential. While the council does not address one of the complaints that led to Brexit, namely that decisions were made behind closed doors, it gives both sides a body in which to contain headline or social media driven eruptions of mutual complaints.

It could also be an embryonic body that could evolve into something more ambitious over time, given the right level of political will and mutual trust.

Let's not forget that the fourth objective of the EU since the Brexit referendum is to allow for the U.K. to re-enter the bloc eventually. If and when London is willing to reconsider its decision to leave, the EU needs to be ready.

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The Time is Now for Business to Form New Relationships With Government

John Romeo, Managing Partner and Head of Oliver Wyman Forum, Oliver Wyman

The events of January 6 have shaken the United States and sent reverberations around the world. The sight of a mob storming the Capitol to try to reverse the result of the presidential election has shocked Americans and caused outsiders to wonder if similar upheavals could occur on their soil. The assault demands a fundamental rethinking of our political and social norms and behavior.

Business can help lead the way in this reassessment. Mob violence doesn't have a track record of promoting prosperity. And corporate leaders should have little interest in fostering hyper-partisanship that risks alienating half their potential customers and prevents the political system from addressing issues like immigration reform and aging infrastructure.

The business community was quick to react to the insurrection, with dozens of companies announcing they were suspending political donations, some targeting Republican lawmakers who challenged the Electoral College vote for President Joe Biden.

The Expanding Role of Business in Society

It's fair to ask whether this stance will last, especially after the Senate voted on February 13 to acquit former President Donald Trump of inciting the mob. Yet a reappraisal of business's relationship to government is needed. It has solid historical roots, it's in the business community's interest, and it comes at a time when many CEOs are already redefining their companies' roles in society.

The basis for a new approach exists in the movement toward stakeholder capitalism. In 2019, nearly 200 U.S. CEOs signed a Business Roundtable pledge to run their companies for the benefit not just of shareholders but of employees, customers, suppliers and the wider community. This movement harks back to the idea of an "economic commonwealth" that Harvard law professor Merrick Dodd advocated during the Great Depression. It has gained strength through promises by many firms to promote greater diversity and inclusion in the wake of the Black Lives Matter protests and the growing embrace of sustainability initiatives to fight climate change.

Taking Action — and Ensuring Accountability

Now, companies need to demonstrate they are turning those words into action and holding themselves accountable. Signers of the Business Roundtable statement pledged to compensate employees fairly, support them with training and education, and foster diversity and inclusion, for example. So why not publish annual statements — with metrics — that describe how they are investing in their employees, what efforts have been made to attract a diverse workforce and the results of those efforts?

Most of these areas lack agreed reporting standards. The European Union aims to clarify requirements for environmental, social and governance reporting this year while the new U.S. administration has yet to stake out its policy. But companies should proactively disclose their efforts rather than use the lack of uniformity as an excuse for inaction.

Business also should seek to have a more-open relationship with government, one with clearer guardrails. There are already signs that change is taking place. Growing numbers of S&P 500 Index companies now disclose or prohibit donations to political candidates, parties or committees, according to an index compiled by the Center for Political Accountability and the Zicklin Center for Business Ethics Research at the University of Pennsylvania's Wharton School. Greater transparency should benefit both business and society.

Reassessing Regulation

Companies would also do well to reconsider their stance on regulation. They have every right to express their views, but blanket opposition to new rulemaking misunderstands the nature of representative government and is unlikely to be sustainable.

Consider the conservative backlash against Twitter for banning former President Trump. Social media platforms invest heavily in content moderation only to be damned by the right if they ban him and by the left if they don't. In the short term, there's no alternative but for tech companies to set their own standards, individually or within the industry and be totally transparent about their decisions. But companies will prosper best over the long term by focusing more on competing and less on trying to tilt the playing field. We elect lawmakers to weigh competing interests and set the rules.

These aren't just American issues. Recent years have seen a decline in democracy globally, a rise in authoritarianism and a greater airing of extremist views. Those trends have fueled economic nationalism and eroded the rules-based global trading system. The economic fallout of the pandemic risks worsening those trends. It is in the private sector's self-interest to help resist these forces.

The business community can't prosper in the long run if political and economic divisions push us to the breaking point. That's why business leaders should be asking themselves how they can help all of us come together.

Brink News

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John Romeo has 25 years of consulting experience advising the boards and senior executives of the world's leading private and public sector institutions on top level corporate strategy, organizational effectiveness, risk management, innovation, efficiency and M&A. He sits on the firm's Executive Committee, Risk Committee and Leadership Council. John has held a number of leadership positions within Oliver Wyman, most recently as Managing Partner for the Americas.

Design for Recycling:
The Secret to Growing a Circular Economy

Barbara Reck, Senior Research Scientist at Yale University and REMADE Institute

The rise in commodity prices is giving renewed urgency to the concept of a circular economy — and the need for businesses to take recycling requirements into account in their product manufacture.

BRINK spoke to Barbara Reck, Senior Research Scientist at the Yale School of the Environment and node lead Systems Analysis & Integration at The REMADE Institute, a public-private partnership established by the U.S. Department of Energy to bring together business, trade association and academics to accelerate the U.S.'s transition to a circular economy.

An employee inspects piles of recyclable wastes stored in a warehouse of a waste sorting facility in Southwestern France, on Febraury 25, 2020. Recycling focuses on relatively few materials, much fewer than the amount of materials found in products.
Photo: Georges Gobet/AFP via Getty Images

This is second article in a series on the state of business related to the Sustainable Development Goals, in anticipation of the COP26 Conference in November. The first piece ran in February 2021.

BRINK: What is stopping us from adopting a circular economy more widely?

RECK: Broadly speaking, we don't have enough recycled materials of acceptable quality to no longer need primary material production. There are several reasons for this — a chief being that not enough materials are collected for recycling in the first place.

The result is that even if recyclers were to do a perfect job in separating the recyclables, our overall recycling rate would still be low because we started with an unnecessarily low baseline. So, the recycling industry needs to do better at the collection stage.

Recycling Rates Can Be Higher

Another challenge is that most household wastes in the U.S. are collected single-stream, so all recyclables are collected in the same bin. While this is convenient for collectors, it makes the separation of materials much more difficult. For example, broken glass is hard to remove from mixed paper, lowering the quality and usefulness of the recycled paper. Also, not all recyclables have good end use markets. For example, of the seven major plastic types, only two have good markets while the others get downcycled at best.

Recycling focuses on relatively few materials, much fewer than the amount of materials found in products. If you look at metals, there is not just one steel or one aluminum but hundreds, if not thousands, of different alloy grades that differ among one another in their chemical composition.

Yet, at the end of life, the recycling industry recycles, at best, several dozen of these. Instead of thousands of different alloy grades, less than a hundred are being collected and processed separately — the rest are downcycled to a few common grades.

This matters since you not only lose specialty metals but also the energy that went into producing them. The challenges in recycling are economies of scale and the right separation technologies.

More Communication Needed Between Designers and Recyclers

And finally, there is the problem of product design. Electronics are a good example of the product design challenges recyclers often face.

Electronics are full of valuable materials, including precious metals. The best way to recover the materials is through product disassembly, so components can be kept separately. But when your phone is welded instead of screwed together, that's very difficult.

There needs to be more communication between designers and recycling, so that the designers know what kind of technology is available and what the needs of recycling are. That way they would be able to take more responsibility. Product design with recycling in mind is something that would go a long way.

Adding end of life management to the key design criteria, such as performance and costs, would be really helpful. Design for disassembly or design for recycling would make a big difference.

BRINK: Is there any policy initiative that could be used by governments to encourage that?

RECK: A vehicle that does exactly that is Extended Producer Responsibility (EPR). This is the idea that producers have to take back their products at the end of life for recycling, and therefore, have a higher incentive to make products recyclable in the first place.

Price is another powerful incentive: when the materials themselves are so valuable that material recovery pays for itself — for metals, plastics and paper. With higher commodity prices everybody tries to be as efficient as possible, minimizing yield losses, and maximizing collection rates.

Is the Urban Mining of Landfills Viable?

BRINK: The concept of 'urban mining' seems to be becoming more fashionable. Is that a viable sector or industry in your view?

RECK: Urban mining typically refers to the recovery of valuable materials from discarded products that can be found in population-rich areas. For example, every smartphone contains some gold. Though the amount of gold per phone is small, the fact that we have millions of phones in use makes a stack of old phones look like a valuable gold mine.

The problem, however, is both accessibility and material mixing. Existing material separation technologies have been developed for primary ores, but not for urban mines. So though the opportunity sounds promising, there is still a long way to make it happen.

There is no perfect singular way to a circular economy. There are a lot of pieces to the puzzle. You need to look at design, collection, separation efficiencies and recycling efficiencies. But urban mining definitely plays an important role with its focus on better collection rates.

Remanufacturing Is Preferable to Recycling

BRINK: What is the difference between remanufacturing and recycling?

RECK: In recycling, a discarded product is processed in a recycling facility for material recovery. For example, a car gets shredded and then the shredder fraction gets separated into steel, aluminum and copper, which are all recycled. It is no longer a car.

In contrast, in remanufacturing, you would take a car and repair or replace all components until the car is basically as good as new. Ideally, you would leapfrog much of the manufacturing process since you can skip the recycling and often energy-intensive material production.

From a circular economy perspective, remanufacturing is high on the list, just after lifetime extension and reuse and before recycling. Yet to date, there are only a few applications for which remanufacturing makes economic sense and is widely employed, large machinery is one such example.

BRINK: If you were to look at the arc of the circular economy, where would you say we are in the West?

RECK: I think we are, at best, somewhere in the early middle of a circular economy. It depends on the materials. More valuable materials, such as metals, are managed in a much more circular fashion than plastics.

What we have to keep in mind is that the concept of a circular economy is not to be taken literally, rather it's a vision that helps us set ambitious targets. Its limits become evident for metals with their long product lifetimes of several decades. The supply from 20 years ago wouldn't be enough to meet today's demand, even if we had a perfect recycling rate.

In terms of supply and demand balance, materials used in products with shorter lifetimes have more potential for circularity. Yet, the reality for plastics packaging is rather discouraging with recycling rates of less than 10%.

If you could set up a well-established recycling infrastructure for short-lived materials, you have the potential to get to a more circular economy very quickly.

Brink News

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Dr. Reck is node lead of systems analysis & integration at The REMADE Institute and a senior research scientist at the Yale School of the Environment where she studies the sustainability of material use in society. Prior to her research in industrial ecology she worked as manager for environmental affairs at Lufthansa German Airlines.

COVID-19 Has Forever Changed the Customer Experience

Timothy Calkins, Clinical Professor of Marketing at Kellogg School of Management

A greeting robot and a cleaning robot stand in the lobby of a Tokyo hotel in May 2020. For business hotels, new customer priorities include a renewed focus on safety and cleanliness. Photo: Philip Fong/AFP via Getty Images

The first days and weeks of the pandemic forced companies to initiate significant changes to their customer experience. Nearly a year later — with the risks of exposure still high in the U.S. — many of those changes have become habits. Because habits tend to stick, even with vaccine rollouts, many industries face a changed landscape for the future.

"The realization has hit all of us that this pandemic is not a two-week or a two-month disruption," said Tim Calkins, a clinical professor of marketing at the Kellogg School. "It's going to go on for a very long time."

So how can your company recalibrate for a changed world? Calkins offers tips for companies looking to adapt their customer-experience strategies for the long haul.

Take Stock of What Changes Are Likely to Stick

Calkins advises companies to first take stock of the profound changes in their customers' daily lives and figure out how those changes will realistically impact their business over the next months and years.

"You have to ask your company, 'What's now changed in our world? And what does that really mean for us in terms of how we go to market and how we interact with our customers?'" he said.

Take retail. Even before the pandemic, retail clothing brands were carving out direct-to-consumer niches on social media sites. This trend quickly accelerated when shoppers were abruptly stuck at home.

"Even if you don't buy a lot of clothes, occasionally you still need a new pair of socks," Calkins said. "With all of us forced online, it didn't take long to realize that online shopping is easier in some respects. Which means we're not going back. If you are a company that wants to build a brand in this space, your tools have now changed, and your opportunities have changed."

Or take the hospitality industry. With people eager to get out of their homes, there are early stirrings of a recovery in vacation and resort travel. But business travel still has not budged.

"For business travel to really happen, you need two people available to meet, and right now nobody is available to meet," Calkins said. "And there's no indication that's going to happen for a very long time."

Even when hotels do reopen, Calkins sees them having to adapt their marketing efforts to new customer priorities. For business hotels, this shift will include a new focus on safety and cleanliness. Moreover, hotels that previously packed grand lobbies with restaurants and shared workspaces, or that hosted large conferences, may need to rethink how they use those spaces — at least in the medium term.

"The idea that you're surrounded by other people in a shared experience was always so important to hotels. That created the social energy that a lot of hotels built their brands on," Calkins says. "Even when people begin to travel, it may be years before people seek out and really desire that social experience."

Embrace the Online Customer Experience

With much of life having shifted online — and much of it likely to stay online for the foreseeable future — it is time to ensure that the online customer experience is just as carefully designed as the in-person one.

Before COVID-19, for instance, most grocery shoppers made purchasing decisions in the store, choosing products based on what they saw, touched and compared on the shelves. As a result, companies invested in shelf-placement plans, in-store promotions and point-of-sale merchandising to drive visibility and sales.

"Now, so many people are ordering online," Calkins said. "So the whole decision process is different for customers."

Delivery and curbside pickup have added new steps — and new people — into the customer experience. Stores now bustle with employees and contractors filling orders for customers. These buyers are more interested in speed and accuracy than bargains, so they aren't influenced by on-shelf promotions.

"All the stand-in shoppers want is the products to be in stock, to be easy to identify, to be clear and simple," Calkins said. "They're motivated by very different things than consumers shopping for themselves."

This means if grocery stores and other retailers want to steer customers toward certain products, they will need to incorporate promotions into other parts of the experience. Some grocery stores have begun adding free product samples to customers' online orders, for instance.

And don't forget the importance of the last mile. Reliable, quick and safe pickup or delivery is now squarely a part of the customer experience: Mess it up — or do it worse than your competitors — and your customers may start shopping elsewhere.

Recalibrate the In-Person Experience

There's no doubt that the in-person customer experience has taken the biggest hit from COVID-19.

"For many retailers, that retail experience was always so important," Calkins said. "It was fun and exciting, with lines of people and cool music that helped define the brand experience. Now, if you even go into the store, it's more of a solitary experience and it's very different for brand building."

Some of this fun and excitement is just not possible right now — and that's okay. According to Calkins, "care" should come first. This means taking physical steps to ensure the safety of customers and staff, as well as sending reassuring signals to customers that make them feel cared for.

"Consumers really want to know that a company cares," Calkins said. "Given all the uncertainty in the world right now and all the risk and the hazard and the way people are feeling, there's nothing more important."

Still, it can't be all hand sanitizer and no swag — particularly for brands that have strong emotional appeal, and where customer service tends to be less transactional and more relational. These companies need to be particularly creative about brand-building.

Take the Best of Both Worlds

Will customer-experience experiments stick around when COVID-19 is in our rearview window? Maybe not. But maybe it will.

Above all, it's important to remember that a constantly changing environment means constant opportunities to learn and adapt. Eventually, as the dust of a new, post-COVID reality settles, the organizations that experimented will have many more tools at their disposal.

"When constraints go away, or we are met with new constraints, all of a sudden we can try new things," Calkins said. "This can lead to new ways to connect with customers, new product offerings, new opportunities and things that hadn't been considered before."

Education has long been viewed as a change-resistant industry: Teachers determine the information they want to teach, establish an approach to teaching that material and then deliver it to students in the classroom. The shift to remote learning has upended that. In the process, it has presented new possibilities for the ways teachers and students interact.

"Everyone's been forced to do things they never planned to do," Calkins said. "And what we've learned is that a lot of these new techniques let you do things that were never possible before: things that in so many ways are far superior to what we used to do. You look back and you wonder why some of these ideas had trouble taking off before?"

The advantages of platforms like Zoom for many teachers and students — from the time saved commuting to schools to the myriad ways of engaging with breakout rooms and discussion boards — can be transformative. But teachers are learning the limits of remote teaching as well: It's tiring, and some tasks are more difficult. Calkins looks forward to a future when the education industry can take advantage of the best of both worlds, designing student experience with the optimal technologies for different types of engagement.

"The customer journey in the world of education three years from now will be completely different than it was three years ago," he said. "We're going to see these new tools being used not to the exclusion of in-person — I don't think anybody thinks that's ideal — but in combination and in different ways that will optimize a learning experience. If ever there has ever been a time for that kind of expansive thinking, it's now."

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Brink News

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