

Northern Light 2020: The Corona World: What is the new paradigm for business? KEY TAKEAWAYS

So now what?

The crisis we are facing now is worse than the 2008/09 financial crisis, but we have probably passed the lowest point. However, the prospect of a second wave - and its devastating social and economic impact - continues to loom. The road to recovery will not be uniform or summed into a singular letter shape. The recovery will be difficult to predict as different parts of the world both entered the crisis and will exit the crisis at different times.

The new paradigm is an uncertain one, and the world that we are emerging into will look drastically different to the one we left. We don't know when, or how we will be rid of this disease - or if we ever will. But regardless of what comes ahead, the situation we are in will require the best of all of us.

Losses

THE RETURN OF POWER POLITICS: WHO'S LEFT ON YOUR TEAM?

The pandemic has brought geopolitics back to the center of attention. The focus of many countries has shifted towards prioritizing sovereign interests, and inter-state competition has accelerated.

We are in the midst of a profound shift in the structure of global relations, with the importance of the US-China relationship leading by example. While the battle between China and the US intensifies, Russia leans ever closer to China. A non-aggression pact, complementary economies, and a similar political system bind the two countries together. In addition, Russia is becoming increasingly dependent on both China's economy and its tech industry. Will they stay best friends forever?

Europe is left with a difficult choice. The hope for Europe to act as an assertive geopolitical power continues to be eroded by the lack of its efficient decision-making power. Europe is unlikely to become more coherent in its international relations and might not be able to make a choice at all.

The US is faltering on the edge of a cliff, which reminds us of where they stood in 1860 right before the civil war. As its internal divide is growing deeper and its shortcomings in handling the corona crisis hit the light of day, the US does not seem like a leader worth following these days. Hence, the foundations of the trans-Atlantic relationship and global cooperation have become shaky. Multilateralism is heading into a downward spiral, and the process of decoupling is accelerating. Although the US presidential election will act as a milestone for the future of the multilateral world, the result of the vote alone will not determine the path ahead. We are already on our way.

A HARD-HITTING ECONOMIC CLIMATE: IT'S RAINING CATS AND DOGS

The impacts of this crisis will be permanent. Our economies will be smaller than we possibly could have predicted in 2019, and public finances will look significantly worse. We will all continue to suffer from this crisis, but some - those in the poorest countries, youth, and

women – will bear the costs of this crisis much more acutely. Small to medium sized enterprises will also continue to face deep costs, with the risk of 20-30% of the world's SMEs going out of business by the end of this crisis still weighing heavily. In addition, debt levels will massively increase on both the sovereign and corporate level. Those debts will need to be repaid. On a macro level, precautionary saving by households will make it harder to reap the benefits of many of the stimulus packages. Not exactly conditions for optimism.

Rigidity and lack of adaptability are poison for businesses seeking to succeed through the crisis. With disrupted supply chains, reverting to local production chains and protectionism may sound like a quick fix. However, the further along the road of protectionism one goes, the higher the price for consumers. A more crisis-secure solution may be found in investing in modular global supply chains and decentralized decision-making.

Nobody – no firm, no household, no government – can buy its way out of a solvency problem.

Restarting the economy will require the efforts and buy-in of everyone. Social ownership is present in all proposed recovery measures – without it, we may end up running around in circles and risk reversal. In order to obtain that buy-in and respond to the anxieties of both companies and the public, governments have to make an active effort to listen and respond to the expectations of hard-hit society.

HOW TO STAY FOCUSED ON SUSTAINABILITY?

COVID-19 has set the climate agenda back overall, as companies and governments struggle to juggle crises they see as more immediate than the long-term threat of climate change. This is on top of our existing predicament – over 80% of the world economy is still dependent on fossil fuels, and governments have not done enough in taking the necessary steps to clear the path to an energy transition and ensure that the future generations have a world to live in.

While we have managed to accelerate the trend towards sustainability in some areas, people still don't understand the grand scale of what needs to happen to meet climate change targets – hard-to-convince CEOs included. There is also a real risk of getting muddled by empty statements and platitudes while accelerated, bold action remains out of reach. Recovering ground while pressing forward will be a challenging task for all.

Gains

A CHANCE TO FORGE FRIENDSHIPS

The COVID-19 response has largely been coordinated on a national level, but an effective international response could make a turn for the better as countries will need allies in dealing with a crisis that knows no borders.

Hard decoupling is an expensive solution and the pandemic will not bring about the end of globalization – however, we will see a shift towards a new era of regionalization. In Europe's case, regionalization may very well strengthen its institutions, and security might be found in a recovery which occurs within the single market. The single market, with its winning combination of scale, diversity, and reliability, can help Europe to come out of the crisis stronger.

A WINDOW FOR ECONOMIC TRANSFORMATION

We now have a window of opportunity to speed up the economic transformation into one that is more digital and sustainable. We have already compacted five years of digitalization into the space of a few months, and we can harness this time to fully jump into a digital future.

The policy response we saw this time to the crisis was fast - now we need politics to catch up and to ensure that the response is a cooperative, regional one, and not one conducted on a closed-off national level. For once, we can't blame this crisis on fiscal fecklessness. The profound changes that we are going through (like the rapid digitalization of the economy) will birth new industries, and we can use existing technologies like blockchain and other open-source tools as a way to build trust, which is crucial in an environment where state actors are wary of their neighbors and competitors. Businesses will fare well if they focus on resilience and establishing a decentralized decision-making process, which will allow them to both react quickly and keep an eye out for future crises.

Within the Eurozone, the single market will play a key role in facilitating a post-COVID recovery that overall strengthens Europe's position as a global player. The lengthy period of monetary stimulus will provide breathing space for European economies to recover.

SUSTAINABILITY AND BUSINESS HAND IN HAND

The good news is that there is already important action underway in advancing the climate transformation. In the last financial crisis, only 2.5% of government spending was behind a green recovery - now, that number stands at around 20%. And for most countries, renewable energy is already cheaper than fossil fuels.

Governments don't have to be the ones who lead the way; start-ups and other innovative private sector actors will be instrumental in leading the climate transformation and pushing towards measures like a global framework for emission reduction. If we can keep the best of the old yet invest in the new, businesses and governments alike will be able to respond better to the changing world. The willingness of CEOs to adapt will be essential. Anticipating what the future might look like and disrupting one's own business model has become a necessity in ensuring the longevity of businesses and the world in which they operate.

Those who are able to adapt to more sustainable business practices will be rewarded by the financial market - and an increasingly conscious global consumer base. CEOs whose actions reflect their intentions will stand out as leaders in coming out of the other side of this crisis stronger and will be able to make a strong case for themselves when governments are making tough decisions on bailouts. This could be through action like moving towards a multiple-stakeholder model, and many CEOs are already on board - only 7% want to center their business models solely around shareholders. Successful firms already have the capacity to innovate and change by nature, and our future is promising if those talents can be harnessed in creating a more sustainable business environment.