

Mark Cliffe: Doing Business in the Great Disruption

Understanding the forces behind the Great Disruption will be critical for companies hoping to survive and thrive in 2019 and beyond, **writes ING Chief Economist Mark Cliffe for Project Syndicate**



ING Chief Economist,
Mark Cliffe

Asset prices leave financial markets vulnerable to destabilising setbacks

A decade ago, the global financial crisis cast a spotlight directly on financial institutions; but that scrutiny has since morphed into a more general scepticism about corporate behaviour. While the tech giants that are driving the digital disruption have become the centre of attention, no company should assume that the Great Disruption will be a mere passing storm. A prudent outlook would accept that today's polarization could get worse before it gets better. After all, populists have been on the march in the midst of a sustained economic upswing and falling unemployment. Just think what will happen when the next recession arrives. Though forecasters are not ringing alarm bells about a recession in 2019, high asset prices leave financial markets vulnerable to destabilizing setbacks. And while the current crop of populists might not fare well in the next recession, they could well be replaced by others with even more radical ideas.

Moreover, while politicians come and go, other key elements of the Great Disruption will endure.

The new-technology genie is out of the bottle. The rapid deployment of digitalization and artificial intelligence (AI) will be hard to stop, owing not only to the pervasive benefits these technologies bring but also to the competition they have spurred between countries – led by the United States and China – to be the winner that takes all.

To survive the Great Disruption, companies first need to be careful what they say

Similarly, the environmental challenges of climate change and resource usage are not about to go away. If anything, they will intensify as a result of populist climate denial, delay, and prevarication. Accordingly, companies should think of themselves as polar explorers, whose top priority is always to avoid freezing to death.

To survive the Great Disruption, companies first need to be careful what they say. Policy advocacy risks triggering a backlash and boycotts, and one critical presidential tweet can send share prices tumbling. In an era of social media and fake news, active but sensitive reputation management is more challenging than ever.

Foreign companies must be attuned to local cultural diversity

Second, recognizing that trust in big business is fragile, corporate leaders need to understand not just populist politicians but also the motivations and desires of the people who support them. Foreign companies, in particular, must be attuned to local cultural diversity. And ensuring the privacy and security of client data is another critical ingredient in building and maintaining trust.

Third, companies need to be better prepared to weather shocks, by de-risking their operations and balance sheets. Scenario and contingency planning, along with stress testing, are crucial for building the resilience and flexibility needed for survival. In particular, complex international supply chains and lean inventory-management techniques can be caught out by capricious political decisions and other shocks. Once companies have built up resilience, they can start to look for opportunities that the Great Disruption may offer.

To that end, multinationals should start behaving more like 'multi-locals' With countries so internally divided, companies will need to pay more attention to the nuances of local interests when serving their customers. Looking beyond urban elites, there are profitable opportunities in catering to less advantaged segments of the population. These cohorts' concerns are what governments – populist or not – are under increasing pressure to address.

A major focus in the months and years ahead will be the tension between the US and China

Moreover, digital technologies and AI are creating new possibilities to serve disadvantaged groups with segmented and personalized products. Already, policymakers in Europe and elsewhere have begun to look for ways to address the dominance of US and Chinese tech companies. If that increased attention leads to tax, data, and privacy policies which level the competitive playing

field, there could be new business opportunities for others.

Digital technologies and AI are creating new possibilities to serve disadvantaged groups with segmented and personalized products

Companies also should consider adopting a “barbell” investment strategy: having made their core businesses resilient to polarization, they can reserve a small proportion of their investment budgets for bets that promise high pay-offs. This calls for agility because companies will need to respond quickly to changing circumstances.

But so long as they keep bigger buffers and reserves, they will be able to pounce on bargains after negative shocks. Today’s stretched asset valuations suggest that such shocks are becoming more likely. But even if they don’t materialize in 2019, companies can start thinking through their options. A major focus in the months and years ahead will be the tension between the US and China, which may depress asset prices, presenting attractive entry points for the booming Chinese and intra-Asian regional markets.

Companies should play the long game on environmental sustainability

Finally, companies should play the long game on environmental sustainability. Populism and nationalism may be weakening cooperation on these global challenges, particularly now that President Donald Trump has withdrawn the US from the Paris climate agreement. But this means that there will be an even greater need for action in the long run. Alternatively, the populists themselves may come to see the attraction of shifting taxation from workers – especially their core voters – toward fossil fuels.

This may not be imminent in the US, where Trump has committed to propping up the coal industry. But the falling cost of renewable energy presents a longer-term opportunity to make the shift away from fossil fuels. Not only will less expensive renewables depress fossil-fuel prices, but, absent policy action, they will also stimulate a counterproductive rise in energy consumption. To prevent this, policymakers could raise taxes on energy generally and use the revenue to fund cuts in other taxes.

Mark Cliffe is Chief Economist and Head of Global Research at ING Group.

This article first appeared on [Project Syndicate](#).

[Listen to Project Syndicate's live event podcast, where Mark Cliffe presents his views on the year ahead](#)

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michieltukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com