

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**



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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.

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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.

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