Teneo®

Vision

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Where Is The World Going? How Do We Get There First?

Editor | James Hoge

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Foreword

Declan Kelly, Chairman & CEO, Teneo

There are three numbers to think about for 2019: $1 trillion, 20 billion and 3.8 billion.

In 2018 we saw the first companies reach a **$1 trillion valuation**. A note of caution. When ancient Rome granted a triumphal procession to a successful general, a slave stood behind him and whispered ‘Hominem te memento.’ ‘Thou art human.’ We also saw the largest single-day drop in market value.

So, a trillion stands for opportunity, but also for the challenge of staying at the top. Don’t think of it as dollars on a dusty balance sheet. Think of the billions of people whose lives are improved by these companies and what they offer. Hundreds of millions of savers and retirees who are better off. Millions of jobs created. Thousands of communities benefiting. William Nordhaus, winner of this year’s Nobel Prize for Economics, estimated that entrepreneurs retain about 2 percent of the value of innovation, the rest accrues to society.

20 billion is an estimate of the number of devices that will be connected to the internet in 2019. As Michael Porter of HBS put it, “In fact, there is no such thing as low-tech industries. There are only low-tech companies.”

Autonomous vehicles may get the headlines, but much of the change is invisible as IoT re-engineers existing processes. A farm in Nebraska producing one terabyte of data every month to improve crop yields. Smart factories planning production schedules directly from customized orders placed by customers in the showroom. Your daily commute being 20 minutes quicker because IoT-enabled traffic infrastructure reduces congestion.

Every CEO I talk to is thinking through the impact of technology on their business, the opportunities it creates, and the dangers it might pose. Cyber breaches will continue to hit the headlines in 2019.

The final number, **3.8 billion**, is about hope. 2018 was the first year in history when more than half the world's population were categorized as middle or high income; 3.8 billion people. This is great news. Better yet, that number will be 5.3 billion by 2030. Private household consumption accounts for half of global demand. And two-thirds of household consumption comes from the middle class. This will mean massive new opportunities for business.

How businesses configure themselves to seize these opportunities is changing. When I started in business there were more than 8,000 publicly-traded companies in the United States. Today, it's less than half that. Share buybacks are at record highs and outweigh new issuance by a record margin, as companies return value to owners.

Also factor in close to 300 Unicorns globally, private companies with billion-dollar valuations. I now hear CEOs across several industries talking about the problem of bringing in innovation and talent, historically done through acquisition. Now that supply is drying up as entrepreneurs find alternate funding structures.

Of course, today's Unicorn may be tomorrow's S&P 500 company. Chinese tech companies outpaced U.S. companies for U.S.-listed IPOs in 2018. That trend may reverse next year, as we likely see 'the play from the Bay,' with several SF tech titans including Slack, Uber and Airbnb potentially looking to go public.

The owners of business are changing too. Today we have the paradox of activ(ist) versus passive investment. Index funds are over a third of the U.S. fund market and will likely overtake active funds in the next five years. But activist investing is also at an all-time high, with $54 billion of capital deployed into 174 companies through the first three quarters of 2018. Teneo advised companies worth more than a trillion dollars combined in activist situations this year. We are also seeing passive investors taking a more active stance, as they exercise their stewardship duties. As a result, it is more important than ever that companies engage with investors to tell their story.

Put all these disparate trends together and capital markets' dynamics are changing fast, in ways business leaders are struggling to fully understand. What's at stake here is the future of public markets and the efficient allocation of capital. And striking the right balance between entrepreneurialism and oversight. It underscores the vital importance of alignment, making sure that those with common interest in the success of a company understand each other's perspectives.

As usual, this book is a *tour d'horizon* of the issues on top of the CEO's agenda. We cover the globe looking at the shifting sands of macroeconomics and politics. It also delivers insights from Teneo experts on market issues, including: regulation, new consumers and the shifts caused by technology. Finally, we look inside the corporation at new thinking about security, purpose, governance and oversight.

The three numbers I have chosen represent the challenge and opportunity; the changing world we live in; and the sheer complexity of running a business with multiple, complex and overlapping stakeholders. They are the context for the most pressing reputational, transformational and capital markets issues that CEOs face.

Increasingly, there is no place to hide, in markets and beyond. We are living in an unprecedented political environment. Business is having to decide where and when it should express a political view. And not just on tax, regulation or narrow business areas. We saw more business leaders than ever speak out on social issues in 2018.

We live with paradox. We are more diverse than ever, yet we have more disharmony too. Women make huge strides in business, yet we have the reality that underpins the #MeToo movement. We see more opportunities available to more people than ever before, but also new obstacles and borders being created.

The more public a company becomes, the more reputation matters. And I don't just mean publicly-traded. At the point you intersect with consumers, those they elect, and ultimately society, your reputation is rightly under the microscope.

The most important question for business today is, do people really trust you? Do they believe you are creating a better tomorrow? Businesses not trusted become businesses under pressure; their options narrow. Trust comes from reputation. Reputation is built on actions.

Thanks to Jim Hoge for his excellent work editing this book and thank you to the Teneo experts from half a dozen countries for sharing their insights. Also thanks to Steve Meahl, Ali Penaro, Solomon Chaison, Devin Mullin and Alexandra Rogan for making it all happen.

Finally, thank you to the CEOs who share their valuable time with us every day, allowing us to work with them to help guide their companies forward. At its core, Teneo's job is to help CEOs follow their true North when the storm obscures the sky. It has been said that CEOs have one of the great luxuries in life, the chance to make a difference. Helping great CEOs do that is our great privilege.

Declan Kelly
Chairman & CEO, Teneo

Executive Summaries

GLOBAL OUTLOOK

Looking Ahead: The Four "Known" Unknowns

Kevin Kajiwara, Co-President, Political & Policy Risk Advisory

To a large degree, the United States' impact on the global operating environment rests on the outcome of four factors: the November elections, the Mueller 'collusion' investigation, the UK's exit from the EU and the state of U.S. and global economies. Close Congressional elections might well result in legislative gridlock and a continuance of market-friendly atmospherics. At this writing, the findings of the Mueller probe of Russian involvement in the 2016 Presidential election are unknown. But the evolving political scene indicates that impeachment of President Trump is unlikely. However, his policies and his populist style will be major election issues. Come March, the UK is scheduled to leave the EU. The vote in Parliament will be close and transit terms will be incomplete. Long-term consequences may crimp British prosperity, strain European unity and diminish U.S. attention. Of great global consequence will be the continued evolution of the U.S. - Chinese relationship. Trade differences could be lasting. China's territorial claims are hardening and investments in global leadership are growing. Increasingly notable is China's drive to be self-reliant in key technology areas. To supplant Pax Americana with Pax Sinica remains uncertain and, in any event, won't materialize for years.

Centrist Politics Weakening, Populism and Nationalism Rising

The Rt. Hon. The Lord Hague of Richmond, Senior Advisor

In the Western world and beyond, the political center is not only shrinking in size electorally, but it is also increasingly hollowed out of ideas. Citizenries are increasingly embittered by what they perceive to be the inequality and unfairness of their societies. In Britain, the political center is fracturing, in Italy it has been swept away, in Germany it is under siege and in France it is in power but beginning to falter. In the United States, the political center is disappearing into a steadily more polarized and partisan party rivalry. This new environment will present an important opportunity for business leaders to try to demonstrate what might work well, and even solve political problems in doing so; this will be in the best interests of corporations, as well as greater society. It is possible that a new dividing line will arise that transcends left and right and finds new ways to foster equality and fairness.

Coping with a Fractious World

Senator George J. Mitchell, Senior Advisor

Today, democracy faces challenges in a dangerous world. While another world war is not likely, local and regional conflicts will continue, with devastating impacts on those directly involved. In the coming decades, it will become increasingly clear that the period of relative stability that followed the second world war has come to an end. The Middle East, for example, is the scene of an expanding clash between the Sunni and Shia branches of Islam. Saudi Arabia and Iran are increasingly hostile. It is one of several large confrontations around the globe that will affect everyone. The U.S. has a clear and compelling interest in doing what it can to help reduce violence and upheaval. Cooperative efforts with historic allies are not harmful to U.S. interests. To the contrary, recent agreements curtailed by the Trump administration, and the post-World War II international institutions have been beneficial to those who participated in them, including and especially the U.S.

MARKETS

An Overheated Economy?

Nicole Sinclair, Managing Director

The fundamentals of the U.S. and global economy are strong, creating a solid foundation for the market in 2019. However, questions around the sustainability of the economic growth at this point in the cycle create some preliminary warning signs for a recession. In the meantime, there is no question that the market has continued to climb the so-called “wall of worry” and shows no immediate signs of a shift from that trend. The economic recovery cycle has indeed been extended – the question is just for how long.

The Artificial Intelligence Bandwagon

Tim Burt, Senior Managing Director

Different forms of artificial intelligence (AI) have been transforming business since the Industrial Revolution, but the pace, sophistication and complexities created by the latest generation of AI systems is changing quickly. Across all industries, AI can reduce waste, speed up systems, and greatly enhance operating efficiency, but some commentators fear that AI could also make assembly-line workers, logistics staff and retail employees redundant, which could cost the jobs of millions of people who can least afford to lose them. Ultimately, it will be the ability to judge when and how to use AI that will redefine and protect the role of the individual.

The Kids Are All Woke: Relevancy Amidst Demographic Change

Chris Jones, Vice Chair, UK, Strategy & Communications and Hamish Docherty, Consultant

Gen Z will soon become one of the largest and most active consumer groups in history, yet the gap between the world's business leaders and the world's latest generation of workers and consumers has never been greater. CEOs and their businesses must act with urgency to understand and engage with a new generation of citizens, employees and consumers. The battle for talent and for customers has never been as fierce, and only those leaders brave enough to step up and meet the challenge of Gen Z will reap the reward. Those standing still risk waking up to find themselves outdated and irrelevant.

A New Definition of Media for CEOs

Seth Martin, Managing Director and David Lurie, Vice President

Earned media will continue to look different than it did in the newspaper age and 2019 will bring the convergence of many media disciplines, and a rise in strategies that don't fit neatly into paid, earned, owned or social tactics. CEOs must accept that in the coming year, they may be compelled to talk to a YouTube influencer as much as to a CNBC anchor or Wall Street Journal reporter. Without a traditional gatekeeper vouching for the newsworthiness of an announcement, CEOs will need to command attention on their own. In a crowded space, this is not easy. It will demand more authenticity and more transparency; both asking and answering the toughest questions; admitting fault and showing gratitude; being human and above all, treating authenticity as the north star metric.

Profit With Purpose: Corporations Step Up Social Engagement
Betsy Cohen, President, Teneo Ventures and
Faten Alqaseer, Senior Vice President

As is evidenced by recent legislation and public statements by some of the world's most high-profile investors, sustainability and social responsibility are no longer just window-dressing. Investors, as well as the current and prospective millennial workforce, want a company's actions to match their own values. In this environment, CSR will become a key building block to the long-term success of a company. This "new CSR" will require a new level of transparency, accountability, and consistency, as well as real-time access to data that can only be achieved with technology that brings automation and operating efficiencies to the company's CSR, ESG, and philanthropy efforts.

Future-Proofing the Board: Corporate Culture on the Agenda
Megan Shattuck, President, Talent Advisory, Martha Carter, SMD,
Head of Governance Advisory and Carol Bowie, Senior Advisor

With the spotlight on boards continuing to intensify, the role of individual directors and the effectiveness of the board as a high-functioning team have taken on even greater importance. Over the coming years, global capital inflows are likely to tend towards boards that demonstrate effective oversight of their organization's culture. For a board to effectively manage the corporate culture, the board's own internal culture must be proactive and strategic, while also allowing for candid conversations. If done successfully, this will create a strong framework for the board to use to address corporate culture, which will ultimately have a positive impact on long-term value.

Security Convergence: Addressing Evolving Cyber and Physical Security Threats

Jonathan Wackrow, Managing Director

Today's dynamically-evolving threat landscape means that an organization's fate hinges on the coordination and integration of cyber security and physical security functions, necessitating an increasingly interdisciplinary and collaborative role for the CEO, as well as the creation or transformation of an enterprise-wide Chief Security Officer (CSO) role. New governance structures that support corporate security risk management will also bolster and accelerate deployment of flexible and saleable mitigation techniques across previously siloed domains. These security and governance changes, coupled with an empowered CSO, will enable organizations to strengthen their enterprise security postures while also maximizing overall business efficiency.

Disruption in Global Sports

Neil Daugherty, Senior Managing Director

Sports, as one of the world's most enduring and captivating forms of live entertainment, is being disrupted at uncommon speed and on an unprecedented scale globally. The result is that the commercial development of sports is changing in ways and at a speed hitherto unknown. CEOs in this industry, sports rights owners, broadcasters and advertisers all must cope with the volatility of this market and determine how they can continue to extract value from sports and how to engage the next generation of fans (customers). At stake is a battle for eyeballs, engagement and revenues in a world of converged entertainment.

POLITICS

China's Deleveraging Overshadows Trade War

Paul Haenle, Senior Advisor

Xi Jinping is clamping down on shadow banking, tightening control on wealth management products, reining in local government debt and limiting real estate lending. The fast pace of this economic slowdown has seen an increase in funding costs, slowed consumption and weakened industrial output. Xi is seeking a soft landing from debt-fueled expansion. He intends for future growth to be slower and more stable. China's debt problems are increasingly drawing comparison to Japan, where a credit-backed boom burst in the early 1990s. Lastly, the Trump tariffs are a crimping factor that, were it to escalate, would fundamentally change the two nations' relationship.

Uncertainty in Growing Asia

Bob Herrera-Lim, Managing Director and Tobias Harris, Vice President

The decline of the United States in Asia is overstated. For the foreseeable future, its super power status will underpin its influence on developments in the region. However, China, Japan and the other major Asian powers will be pursuing their own strategies for ultimate independence from Washington. As elsewhere around the globe, economic competition in the region is occurring against a backdrop of rising nationalism and populism. Furthermore, China's slower growth rate is enabling Japan to emerge as an alternative to Chinese leadership. As for the U.S., it has yet to articulate a comprehensive regional strategy.

Russia and China: Towards a (More) Strategic Partnership

Dr. Otilia Dhand, Senior Vice President

China and Russia continue to expand their strategic relationship while avoiding a formal alliance. Both oppose the U.S.-led unipolar world and feel encircled by Washington's policies. They actively seek to secure their positions in an emerging multipolar world order. They need each other to create a challenge to the dominance of U.S.-led international institutions. However, their relationship has its tensions, including their competition for primacy in central Asia. China's economy, eight times the size of Russia's stagnant economy, is more attractive to other Asian countries such as India and Japan. The disparity between the two countries will continue to grow and there could be hidden fault lines that may limit their relations.

Populism's Continuing Challenges in a Year with Few Elections

Wolfango Piccoli, Co-President, Political and Policy Risk Advisory

The force of populism in Europe will be in high relief around the March 29 date for the United Kingdom to withdraw from the European Union. Major differences between the UK and the EU center on the shape of any customs union and the border between the UK and Ireland, an EU member state. The absence of a legal agreement could increase the risk of a disorderly split that would profoundly affect the EU's cohesiveness. Adding to potential divisiveness are political clashes in Greece, Spain and aspiring Turkey. In Germany, continuing populist pressure is hampering the centrist government of Angela Merkel. 2019 will also be a year when quantitative easing by the EU's central bank will probably trigger rate increases. Abandoning ultra-looseness and re-normalizing monetary policy will make clear that politics remains the prime source of risks to business, investors and the overall economy.

Global Outlook

Looking Ahead: The Four "Known" Unknowns

Kevin Kajiwara, Co-President, Political & Policy Risk Advisory

For those exhausted by the nature and sheer volume of news, fake news, tweets, alternative facts, talking heads, populism, extremism and pure partisan blood-lust, we regret to inform you that 2019 does not portend much respite. As our annual preview of the coming year goes to print, there are four significant "known unknowns" looming that could have a significant impact on the global operating environment:

1. The 2018 U.S. mid-term elections to be held on Tuesday, 6 November

2. The investigation led by the Special Counsel Robert Mueller III into Russian interference in the 2016 U.S. presidential election and related matters

3. The withdrawal of the United Kingdom from the European Union (Brexit) on 29 March 2019

4. The state of the U.S. and global economies

The Mid-term Circus

History and most credible polls suggest that the Democratic party will take control of the House of Representatives in the United States. Credible analysts and pollsters suggest a pick-up of between 30 and 40 seats resulting in something approximating a ten-seat majority. Meanwhile, in the Senate, analysts see more of a toss-up with most expecting the Republican party to retain its razor-thin majority or perhaps even pick-up a seat. The challenge to having great conviction in this scenario is that while national polls suggest a Democratic wave, the reality is that control of the House will come down to the relatively few seats that are truly up for grabs between the parties, while the surreal push and pull between conservative populism and progressive outrage continues. And while leadership of the Democratic party has succeeded in tamping down calls for impeachment – concerned as they are that such calls will be as much a call-to-arms for Republicans as for Democrats – it is also unclear what effect the denouement of the hearings and votes on the Brett Kavanaugh nomination to the Supreme Court will have on the electorate. It is also important to keep in mind that this mid-term, even more than most, is a referendum on the sitting president. Donald Trump's approval ratings fell within the first few months of his presidency, but have held remarkably stable, in the mid-40s since – throughout the Russia election interference scandal, the immigration debate, the Charlottesville aftermath, the widely derided Helsinki 'summit' and press conference with Russian president Vladimir Putin and the guilty pleas and convictions of Michael Cohen and Paul Manafort respectively. In other words, despite the sturm und drang, the atmospherics around this presidency is the ultimate Rorschach test, with all the unpredictability and imperative for turnout that suggests.

Should the generally predicted baseline prevail – Democrats seizing control of the House while Republicans maintain a very slim Senate majority – what will ensue will be legislative gridlock, especially when considered against how little was achieved legislatively when the president's party controlled both houses of Congress. On the other hand, if stimulative fiscal policy and regulatory roll-back represent the best environment for the stock market, gridlock in Washington represents a not so distant second. With the tax legislation now passed and implemented, direct fiscal stimulus via infrastructure spending on hold, further deregulation and executive orders should continue to provide market-friendly atmospherics. Amongst the concerns for corporate decision-makers, however, is the ephemeral nature of policy-making in this fashion, as supporters of the executive orders issued by the late Obama administration can attest.

There is an additional appeal to Republican voters continuing to support the President despite his non-ideological decision-making, frequent faux pas, unique communication style and comportment deemed undignified by many of his critics: the President has been committed to fulfilling his campaign promises regarding judicial appointments – and not solely at the Supreme Court, despite the media attention, but throughout the federal court system. By loading the bench with jurists who've passed the ideological litmus tests of key Washington think tanks and who are relatively youthful, the President can alter the balance of the judicial branch for years beyond his own tenure. But, continued progress on this front is entirely dependent on the GOP maintaining its Senate majority.

The Russia Investigation

It is not possible to predict with any certainty the outcome of the Mueller investigations, given the breadth of the mandate, the professionalism and integrity of the special counsel himself, the leak-proof character of his office and the head-spinning velocity of the news cycle. However, it is fair to assume that there will be no further ‘bombshells’ before the election, lest they be viewed as politicized, especially in light of the partisan reactions to the vacillation by former FBI director James Comey regarding the Clinton investigation in the run-up to the 2016 election. Assuming that Democrats take control of the House and, therefore, the majorities and chairs of the various House committees, the nature of Congressional investigations will certainly intensify.

Should these investigations and the Mueller office results yield material for articles of impeachment, absent a Democratic majority in the Senate, removing the President will be all but impossible. Indeed, as we’ve seen in the past, the president’s own party must ultimately turn for such a move to be successful. Richard Nixon’s approval ratings were in the 20s when he resigned. As stated above, Trump’s approval ratings are in the 40s and remain in the 80s amongst Republican voters. Nevertheless, the political climate portends further focus on partisan politics rather than moving to a legislative agenda, even if removal of the President currently looks highly unlikely.

Nonetheless, Russia’s objectives and motivations remain unchanged. President Putin has stated that the collapse of the Soviet Union was the greatest geopolitical catastrophe of the 20th century, and the expansion of both the EU and NATO have only served to strengthen his resolve. Russia has not only endeavored to push back directly (the annexation of Crimea and occupation of eastern Ukraine), but also to undermine the nobility of the democratic experiment in the United States and to aggravate the extreme ends of the debate on emotionally and historically fraught issues. Having said that, given it represents a mere 1.5 percent of global GDP, the benefits of such action don't necessarily redound to Russia. Indeed, the big winner is China. The U.S.' domestic political polarization, blame for the global financial crisis, opprobrium for the Iraq war and other perceived examples of foreign policy overreach, allow China to propagate an alternative narrative as it further entrenches its position on the global stage.

Brexit Looms

While it is tempting to think that gladiatorial combat in Washington is everything, an unprecedented event looms on the other side of the Atlantic: the departure of the United Kingdom from the European Union. While politically and historically this is much more than a trade deal, the processes of separation and negotiating a future relationship are mired in the quotidian details of a trade deal – deals which often aren't concluded until the eleventh hour. This process appears little different, notwithstanding the ramifications should the two sides fail to reach a deal: reversion to WTO rules and no template for a future economic relationship. Brexit occurs at midnight CET on 29 March 2019. Between now and then much remains to be done, but the most significant work remains on the British side (indeed this is realistically now less a negotiation and more an exercise in minimizing damage), leading, as it will, to what will be an extremely close vote amongst members of Parliament. At the time of writing, the most fundamental question remains – will MPs allow a deal to pass containing a Northern Irish 'backstop,' continuing customs union and non-specific language about the future relationship? The EU's position, especially it's adherence to the 'four freedoms' (freedom of movement of goods, services, capital AND persons) has remained essentially unchanged. Our base case remains that a deal will ultimately be struck but, given how unknowable the fallout will be (though the UK government's own impact assessment shows that over the next fifteen years industrial sectors will be worse off under every Brexit scenario), risk of the UK crashing out remains uncomfortably high.

Global Downturn…When?

A looming question for policymakers and corporate decision-makers alike is when the U.S. and global economies will begin to turn down. Many economists and analysts are starting to anticipate a U.S. recession between late 2019 and

2021. While the technical start of a recession is difficult to predict and even more challenging to characterize in advance, what is indisputable is that the current expansion is one of the longest in post-war U.S. history. Regardless of when and how recession hits, a significant concern is that there aren't a lot of tools in the toolkit with which to combat the effects. Fiscal stimulus, in the form of the tax cuts, and deregulation are coursing through the economy, and at some point, their impacts will be muted. While the Fed has initiated a tightening cycle, interest rates remain low and the balance sheet remains bloated, meaning monetary firepower is limited.

Significantly, American policy moves are having an impact abroad – starting with vulnerable, yet bellwether geographies, such as Argentina, Turkey and South Africa. While each of these countries has idiosyncratic, native problems, they are nonetheless examples of the extent to which the global economy remains at the mercy of U.S. policymaking – policies that are driving a strengthening dollar, for instance. Finally, China's condition has changed since the last economic downturn: growth has slowed, and debt levels have risen – simply put, China is not in a position again to play the rescuer role as it did following the 2008 Financial Crisis.

Above All, a Rising China

While these four issues play out, the single biggest geopolitical event of the twenty-first century, the rise of China and nature of its relationship with the United States, continues to evolve. Alibaba founder, Jack Ma, has warned that the trade tensions between the two countries could continue for the next twenty years. He's right, because the dynamic is bigger than a battle between two strong-willed leaders and that dynamic is something that no CEO, board, entrepreneur or political leader active today has ever experienced: the supplanting of one country by another as the world's largest economy. While the relative handful of times this has happened in history have generally been accompanied by conflict, clearly the prospect of war between nuclear superpowers is unthinkable. However, conflict through other means (trade wars, proxy wars, strategic and economic jockeying for influence) will be the norm.

Bearing in mind that Chinese actions are proportionate to its growing economic prowess, the big question will be the nature of the U.S. response: To what degree will the United States defend the global architecture (institutional framework, strategic alliances, rules and norms, economic interconnectedness) that it designed and perpetuated and how accommodative will it be to China's legitimate claim to a bigger seat at the global rule-making table?

For corporate decision-makers and economic policy-makers alike, the bottom line remains that the U.S./China relationship is simply the most important bilateral relationship, with the biggest global consequences, for the foreseeable future. Whether that relationship is generally cooperative or conflictual, in an environment in which low-to-mid-single digit growth is the global norm, will have profound implications for the efficient allocation of capital, labor and other vital inputs to GDP. An early example of this was the drama surrounding the Chinese company ZTE earlier in 2018. American sanctions, before being reversed, nearly put a company with $17 billion in revenue and 75,000 employees out of business, only reinforcing the rationale behind the "Made in China 2025" initiative for Chinese self-reliance in key technology areas.

The most obvious arena of the U.S./China relationship has been in trade. Much has been made of tit-for-tat imposition of tariffs, with proponents of U.S. policy touting the ability to tariff many more Chinese goods as supporting the notion the U.S. has the advantage. But of course, China has an arsenal of weapons other than tariffs with which to fight back. They can substitute (for example, shift more orders to Airbus rather than Boeing); they can restrict access to vital rare-earths metals; they can suspend IP protections, such as they are, in China; and they can restrict Chinese tourism into the United States, increasingly the largest single U.S. 'export' to China (there is precedent for this: China restricted tourism to South Korea following the deployment of the THAAD missile defense system and in front of the PyeongChang Olympics). There is no question that China has engaged in policies that the U.S. and other countries are rightly indignant about – from forced technology transfer and dumping, to industrial espionage and IP theft. But with only 16 percent of Chinese exports going to the U.S. (in 2000, only five countries counted

China as their largest trading partner. By 2017 more than 100 countries did), tariffs may not be the most effective tool to coerce a change in behavior. And it does not help that concurrently the Trump administration has pursued trade disputes with many allies in the EU, Canada, Mexico and Japan. For purposes of confronting Chinese economic behavior, the adage of Winston Churchill rings true: “The only thing worse than allies is not having any.”

Meanwhile, the two key areas of Chinese policy will continue to generate risk of confrontation: the militarization of the South China Sea and other areas of the western Pacific and the Belt and Road Initiative (BRI). China continues its territorial claims in the region despite the rulings of UN bodies, and it has now militarized a number of the newly constructed “islands” at the same time as the U.S. Navy continues to engage in ‘freedom of navigation’ activities to actively push back on sovereign notions. Risk of inadvertent conflict and resulting escalation remains heightened.

The Belt and Road Initiative serves multiple ends: expanding the Chinese sphere of influence, modernizing the trade corridor between China and Europe and enabling a giant ‘make work’ project for the increasing Chinese labor force and spare industrial capacity. In the near term, two major concerns arise: First, BRI countries are taking on debt to pay for these substantial infrastructure projects, which not only potentially renders their economies more vulnerable (particularly if the economic returns on projects don’t justify the costs), but also makes the assets vulnerable to Chinese repossession should the debt prove unserviceable (as evidenced by the Hambantota Port Development Project in Sri Lanka). Second, the BRI goes through or around some of the most politically contentious, economically important, and militarized areas of the world: India and Pakistan, Central Asia, the Middle East and East Africa. And these areas are also within the spheres of influence of the United States and Russia – again setting the stage for potential future conflict.

While Xi Jinping has positioned himself as the champion of (aspects of) ‘globalization,’ the reality is that China isn’t really liberalizing. The Chinese Communist Party retains its primacy and the government restricts the free flow of capital, information and goods with the rest of the world. However, in an environment where the U.S. role in the world is questioned, China is putting forward a viable alternative narrative which must be considered and worked with going forward.

Populism Persists

Finally, the forces driving populist politics continue to remain unaddressed. Brexit, the Trump election, the rise of the AfD in Germany, the rightward swings in Hungary and Poland, the right/left populist government in Italy, the likely second-round candidates in the Brazilian presidential election in October 2018 are all examples of the political expression of populist narratives. In the U.S., incomes have remained flat since 1970 after adjusting for inflation and the financial crisis and ensuing 'great recession' led to the biggest rise in wealth inequality in U.S. history. Indeed, the white working-class share of total income stood at a mere 27 percent in 2016, down from 45 percent as recently at 1989. While Donald Trump may not prove to be the solution, the dis-affected 'middle class' anxieties are indeed real and in urgent need of being addressed.

There have been periods in which populist candidates have been voted into office in great numbers and trade restrictions have taken hold. In the past, these have tended to occur during times of economic downturn – something to consider in this moment of comparative economic strength. But two-track economies easily obfuscate the real picture to the economic and political elites.

Conclusion

2017 started with a week in which Xi Jinping dazzled Davos as the champion of the global free trading system and Donald Trump articulated a dystopian vision of "American carnage" in his inaugural address. 2018 has seen major world leaders including Japan's Shinzo Abe, the IMF's Christine Lagarde and France's Emmanuel Macron openly criticize the United States while seated on stage with Vladimir Putin at the St. Petersburg International Economic Forum and the surreal images of Trump giving equal weight to the claims of Putin and the U.S. intelligence community, his reference to Canadian prime minister Trudeau as "dishonest and weak" while lauding the dictator Kim Jong-un. The global economy is growing but showing signs of stress; stock markets have rocketed but the era of free money is coming to an end. But these phenomena have conspired to mask an evolving tectonic shift in global economic and strategic power that will dominate the operating environment for the coming decades. An American president doubling down on eschewing globalism for populism in front of the UN General Assembly, while being laughed at for aggrandizing the administration’s accomplishments, may not portend the actual end of Pax Americana. And Pax Sinica remains uncertain and won’t materialize for years, if at all. It’s the interregnum that prevails, and that necessitates objective analysis that is rigorously clear-eyed about the unprecedented nature and speed of change.

Centrist Politics Weakening, Populism and Nationalism Rising

The Rt. Hon. The Lord Hague of Richmond, Senior Advisor

That politics has changed fundamentally is now doubt. Across much of the democratic world, recent years have seen the victories of previously unelectable candidates and ideas, along with a massive weakening of traditional political establishments or parties.

In the last year, the most dramatic example of this has been in Italy. Two years ago, this was a country with an energetic centre-left Prime Minister leading a majority government on the brink of enacting crucial long-term reforms. Now, it is led by an unstable combination of two populist parties from the left and the nationalist right, responding to intense public dissatisfaction with high immigration and lack of economic progress.

The case of Italy is obviously important in itself. It is correctly assumed that any future crisis in the Eurozone or in the European banking system would hit Italy hard. And since it is a country truly in the front line of migration flows from Africa, no wider European solution to that issue can be arrived at without strong support and agreement in Rome.

In addition, however, there are much wider effects and a global lesson. Those effects are on the whole future of the European Union, where any hopes of close integration along the lines of the wishes of French President Macron now come up against a nationalist and uncooperative attitude from one of the major founding states of the EU, as well as from more recent arrivals such as Poland and Hungary.

Italy's politics also has a damaging impact on negotiations between the UK and the EU over Brexit. In Brussels, there is an obvious fear: if they let the UK have substantial access to the single market without freedom of movement of people, what is to stop the new Italian leaders demanding some form of that for themselves, calling an election to receive the endorsement of the people and tipping the EU into a process of disintegration?

The large rock that has been hurled into the center of the Italian political pond is therefore sending waves all over Europe, in ways that damage the prospects of future political and economic stability. It is an example of why the political changes of this decade really matter, even though businesses got used to the idea that chaotic elections or failure to form governments in the years since the Second World War did not always have any damaging effect.

The wider lesson is important too. This is that analysts, thinkers and more centrist political leaders can now see what is happening but have not worked out what they can do about it. To continue with the example of Italy, the election of the Five Star Movement and the League has not been followed by any revival or rallying of the centrist parties now in opposition. Indeed, all indications are that any new election held in the near future would produce an even bigger victory for populism and nationalism.

Across Europe and much of the West, a social Democrat, Christian Democrat, liberal or mainstream conservative can now make a fairly accurate diagnosis of what is happening to politics but finds it very difficult to envisage a cure, let alone communicate one. For the moment, this is the surest sign that the rise of unconventional political leaders and movements is set to continue and intensify.

Fragmenting Identities

The common ground of the diagnosis is that many voters are moving away from a primarily economic basis for their decisions towards more cultural motivations. For Francis Fukuyama, who has retreated from his 1990s assertion that the triumph of liberal democracy had brought the “end of history,” economic considerations are now being replaced by voting on the basis of identity. For Yuval Noah Harari, one of the most important and pioneering thinkers to emerge in recent years, voters are rebelling against their growing irrelevance in a globalized system. In the view of Tony Blair, the dividing line in politics is now increasingly between those who seek an open society and economy, and new forces attempting to close them.

These are different ways of describing the wave of electoral change but all overlap and contain important insights. We can all recognize what they are each describing in election results, not only in the United States and across most of Europe but also in Mexico or the Philippines. Some combination of the effects of global economic competition, accelerating technological change and seemingly threatening flows of migrants is dislocating established political loyalties. Parties of the centre-left are particularly severely affected, because they are perceived to be unable to protect their traditional supporters or to have concentrated excessively on identification with minority groups.

There is no consensus, however, about what the centrist political answer to this might be. To Fukuyama, the solution to fragmenting identities is for nation states to establish a stronger common identity for their own citizens, built around strict citizenship laws and policies such as compulsory military service. For Harari, the answer is for leaders to show that only global solutions can deal with the massive technological, political and climatic issues facing the human race, and it is important to advocate policies that are less nationalistic.

Aligning with Populists

Such contrasting views illustrate the dilemma for anyone trying to work out how to keep mainstream political parties in government. Do they try to prevent politics becoming more about culture and identity, or do they seek their own better form of that? Governments around Europe are each answering that question in a different way. Sebastian Kurz, the new Chancellor of Austria, has made a pact with the populist right and takes a strong line against new immigration into Europe. Angela Merkel struggles to hold together a coalition highly sensitive to such issues. Macron calls for a new drive for European unity and political union. Within the mainstream of politics, there are therefore sharp differences over whether the answer to populism is to reassert national identity or to submerge it.

The British version of this is the intense debate about the meaning and purpose of Brexit. Are we really saying that Britain should make as many of its own decisions as possible, at the price of shedding the structures, certainties and close cooperation of recent decades? Or are we trying to have a new version of the best of both worlds, staying close to the EU and still incorporated into many of its policies and structures, while leaving those things we like least?

The interminable political manoeuvres and controversies of British politics, and within the Conservative party in particular, are essentially about how to answer this question. While the nature of Brexit would be very difficult to resolve under any circumstances, it has become vastly more complicated because of two particular factors. One is the long and tortuous history of Irish affairs in the governing of the British Isles, and how to preserve intact the immense gains of the last 20 years, while still accomplishing a separation of the UK from a union that includes the Irish Republic.

The other is the outcome of the general election that followed the EU referendum, leaving a weakened Prime Minister with no buffer to withstand diverging opinions or rebellions on an issue in which such differences are abundant. The Irish border and the finely balanced parliament are a combination of issues that, at the time of writing, looks likely to result in decisions of massive consequence going down to the wire. Already the expectations of negotiators on both sides are that the many huge questions about the future relationship between the UK and EU would have to be settled during a transition period after the formal date of Brexit, on 29 March 2019. With only months to go, any outcome is possible, ranging from a negotiated and ratified agreement, to the UK leaving with no deal, to the deferral of the leaving date and the calling of a further referendum.

Effects of Social Media

In the meantime, the British case demonstrates another alarming development for the centre ground political leader, which is that the habits of compromise and consensus building within many political parties are breaking down. Fundamental disagreements about policy decisions are the reasons for this, but other explanations include the dramatic rise in the importance of social media and the public enthusiasm for ‘authentic’ political leaders who are disdainful of trying to represent all strands of opinion within their parties.

U.S. President Trump's leadership of the Republican Party is a classic example of this, and by far the most important one in world affairs. His use of Twitter and pursuit of unconventional policies has given him a connection with many voters that has allowed him to override the normal methods of policy-making in his party.

In Britain, the election of a hard-left leader of the Labour Party, Jeremy Corbyn, has brought an end to a long tradition of Labour leaders seeking to represent social democratic views. In the Conservative party, the attempts of Theresa May to reconcile differing views on Brexit, led to resignations from the Cabinet. In both parties, leading figures have preferred to stand by their publicly expressed long-held views rather than to act in ways that would allow their parties to present a coherent and united front.

So, in Britain, the political center is fracturing. In Italy it has been swept away. In Germany it is under siege. In France, it is in power but beginning to falter. In the United States, it is disappearing in a steadily more polarised and partisan party rivalry. Overall, it is a bleak time for moderation.

There is a paradox, of course, in that the established political parties and ideas have just presided over the creation of unprecedented prosperity and security. Germans have never been better off. French people have never lived longer. Britons have never been employed in such numbers. The average person in the West has a longer lifespan, better health care, more material wealth, better security from violence, and greater freedom to choose how to live their life than ever before.

Yet the feeling that such benefits are not flowing evenly or fairly, and that if they do they are nevertheless under threat from the many consequences of globalisation will not be going away any time soon. On the contrary, massive population growth in Africa and the Middle East is likely to ensure that the fear or the reality of migration dominates European politics to an even greater extent over the next 30 years.

New Political Dividing Line?

At the same time, the disruptive effect of technological change on employment seems likely to create intense stress on individuals and society. That is bound to create profound changes in political attitudes. It is possible that a new dividing line will arise that transcends left and right – a divide between focusing on national or ethnic identity on one side or favouring internationalist solutions on the other.

How that will develop is hard to predict, although we can already see the impact of this debate in the trade tensions and tariff impositions of recent months, as well as the many travails of Europe. Other trends might be easier to forecast, and it is now time for political thinkers to try to get ahead of them. It seems likely, for instance, that technological change could easily exacerbate inequality and almost certainly lead to progressively more dominant and indispensable corporations. It is a commonplace assumption that it will make a good education an even more fundamental requirement of a successful career, or series of careers for any individual.

We should not be surprised, therefore, if political debate focuses more closely on issues of equality and fairness; on how to ensure that large corporations are accountable and transparent; and on how education can be radically improved. There will be more discussion of basic incomes, new ways of levying taxes and new frameworks of anti-trust legislation. Deep concerns about the environment and climate change are likely to intensify.

Beset by the problems I have described earlier, centrist politicians are struggling to come up with the ideas on these and other issues that could give them the opportunity to get ahead. The need to wrestle with the rise of populism and nationalism is seriously inhibiting the flow of books, speeches and blogs about a mass of issues that cannot be avoided over the next decade. The political centre is not only shrinking in size electorally but is also increasingly hollowed out of ideas.

A Task for Business Leaders

What does this mean for international businesses? I have drawn attention in the past to the need to build great resilience into plans for the future, given how much the risk of sharp changes in government policies has increased. Local intelligence has become more important as political leaders diverge more from each other, even in neighbouring countries, and behave less predictably.

But now, the state of mainstream politics calls for something else as well. While business leaders should exercise caution about becoming caught up in more polarised and embittered political battles, they do have an important opportunity to try to demonstrate what might work well – and even solve political problems in doing so – if we look ahead. This is particularly true in education. Businesses can see better than anyone else what skills are needed now, how those need to develop for the future, and how the provision of them is currently performing. Many governments are going to struggle with ensuring their education systems keep up with the speed and scope of further technological revolution probably now on its way.

This seems to me to be the most vital area for corporations to examine what they can do in their own interests, and simultaneously in the wider interests of the society around them. To equip people throughout their careers for future challenges and to deal with the way the world is changing, with a greater responsiveness than state education systems can usually provide could, for some businesses, become a central goal. It could be part of the answer to the wave of concern or criticism that might arise in the future. It might help to show how the global, competitive economy can work for many more people. And it could conceivably make a contribution to political stability, at a time when we are going to be increasingly and anxiously looking for it.

Coping with A Fractious World

Senator George J. Mitchell, Senior Advisor

Fear of the future and complaining about the current state of affairs are as old as human civilization. In 1968 the Vietnam War was raging; President Johnson withdrew; Martin Luther King and Bobby Kennedy were assassinated. Riots tore through many American cities.

In the 1930's, during the great depression, unemployment in the U.S. reached 24 percent and a frightened nation struggled to survive.

Much earlier in history, a thousand years before the birth of Christ, the Greek city-states went through a long, slow transition from dictatorship, to oligarchy, to an early form of democracy. The word "democracy" is derived from two Greek words: "demos," the people; and "craci," the rule of. Democracy was seen as a radical departure from past tradition and a danger to the whole society.

Today, twenty-five hundred years later, democracy still faces challenges. And the world is dangerous, as it always has been.

In the twentieth century, an estimated one hundred million people were killed in wars, in a world in which the population was a third of what it is today. Each death in conflict is a tragedy. But today the deaths are in the dozens or scores. In the 20th century, and before, they often were in the hundreds and the thousands.

That could happen again if another world war erupts. But that is not likely in the foreseeable future because of the military dominance of the United States and its allies. However, local and regional conflicts will continue, with devastating impacts on those directly involved.

In the coming decades, it will become increasingly clear that the long period of relative stability that followed the second world war has come to an end. Across a wide swath of the globe, from South Asia to the Indian subcontinent, from the Middle East across Africa, populations will grow rapidly in the coming decades.

Human beings first appeared on the earth an estimated 300,000 years ago. But it was not until about 200 years ago that the world's population reached one billion. The most recent billion, the seventh, was added in thirteen years. Although the rate of increase has since slowed, the absolute numbers continue to rise rapidly. Much of the growth is taking place in countries already not able to meet the basic needs of their people, many struggling with widespread corruption and the absence of an effective rule of law.

Middle East Upheavals

The political history of the Middle East provides insight into recent and future problems. For more than four centuries, what we now call the Middle East was ruled by the Ottoman Empire, based in Turkey. When that empire collapsed in the aftermath of the first world war, Britain and France effectively divided up control of the region. Some of the political boundaries they created did not reflect the history, or the interests, of the people who live in the Middle East. That order lasted nearly a century but has now collapsed under the weight of population growth, drought, mistrust, and violence.

All of these factors are magnified by religious differences. Islam is now torn by internal conflicts, some of which overlap and intersect. Some date from the colonial and post-World War I periods. Others go all the way back to the seventh century and the political competition to succeed the prophet Mohamed, which led to the division between Sunni and Shia.

That division has been marked by alternating periods of remission and violent expansion. It is now intense and expanding. Saudi Arabia and Iran, the leaders of the two groups, are increasingly hostile.

Conflicts in Iraq, Syria, and Yemen have inflamed the Sunni-Shia split, with catastrophic consequences for the people of those countries. Radical extremists like ISIS sought to impose a rigid form of Islam as they claim it was practiced during the life of the prophet Mohamed in the seventh century.

One result has been massive upheaval in the region and the greatest movement of people across national boundaries since the second world war. But as the flood of immigrants from the Middle East and Africa demonstrates, what most people there want, is what most people everywhere want: a stable and secure society, a decent job, a home, and especially the chance to get their children off to a good start in life.

The current upheaval is likely to continue for decades, and likely will have uneven results. The results of the Arab Spring are disappointing, but there are some exceptions: In Tunisia democracy has a fragile foothold. In Morocco the royal family is charting a course for what some call democratization within monarchy.

To those in the West who are impatient or condescending to the pace of change in the Middle East, we should not forget that Europe was shaped by centuries of conflict. In France more than a half century elapsed from the time of revolution to the modern republic. In England it was hundreds of years.

The Middle East is, and always has been, complex. Consider the tangle of the United States' relationships there: we oppose the Assad regime in Syria, but we also oppose ISIS, which is fighting the Assad regime. The Syrian Kurds join us in opposing ISIS, but the Kurds are being attacked by Turkey, one of our allies. We also combat ISIS in Iraq, where we are joined by Shia militias who are supported by Iran, whom we oppose. In Afghanistan, we oppose the Taliban, who receive support from Pakistan, one of our allies. Pakistan meanwhile has fought several wars with India, another of our allies.

We are allied with Israel, but we also are allied with many Arab and Muslim countries. For decades, the U.S. has had close relationships with Morocco, Turkey, Egypt, Saudi Arabia, Lebanon, the United Arab Emirates, Bahrain, and others.

Of the seven and a half billion people on earth today, nearly one in four, about 1.8 billion, are Muslim. Sometime after midcentury the total population will be close to ten billion, and about a third will be Muslim. To put that in perspective: 3 billion was the total world population as recently as 1960.

So, in the twenty-first century what happens in the Muslim world inevitably will affect everyone, in particular the dominant world power, the United States. The

United States has a clear and compelling interest in remaining involved in the Middle East and in doing all we can to help reduce violence and upheaval.

Inevitably there will be many more years of disruption, and no single policy or action can solve all of the region's problems. But a peaceful resolution of the Israeli-Palestinian conflict would be a significant step that might enable some of the countries, including Israel and Saudi Arabia, to cooperate in opposing their common foes: Iran and Islamic terrorist organizations, those supported by and those opposed to Iran.

There is little reason to be optimistic at this time about resolving the Israeli-Palestinian conflict. For the first year and a half of his Administration, the President has been promising a new plan to achieve peace between Israelis and Palestinians. But no plan has been presented and it is unlikely that one will be presented any time soon. My hope is that Israelis and Palestinians will themselves weigh the risks of delay and inaction, against the benefits of an agreement.

I believe it is important for the United States to try to create the right incentives to encourage the parties to enter serious negotiations and reach an agreement. I believe there is no such thing as a conflict that cannot be ended. How the U.S. responds to these challenges will have effects all over the world.

In the 75 years before 1945, Europe was devastated by three major land wars; in the last two the U.S. decisively intervened.

In World War II alone, an estimated 63 million people died, in a world in which the population was less than half of what it is today. Led by the U.S., the western democracies helped Germany, Japan and Italy to rebuild and become durable democracies, and created international institutions whose goal was peace, stability and prosperity: The United Nations, NATO, the World Bank, the International Monetary fund, and, crucially, the European Union (EU).

They sought to prevent a repeat of the past by promoting increased trade and collective security. They have been largely successful.

But in little more than a year in office, President Trump has withdrawn the U.S. from the Paris Accords on climate change; from the Agreement with Iran on its nuclear program; and from the Trans Pacific Trade Agreement. He initially rejected the Obama Administration's effort to reach a trade agreement with the European Union but has recently resumed that effort. And the President has sought to resolve trade disputes with China, Canada and the European countries through tariffs, rather than through the trade-dispute mechanisms of the World Trade Organization.

I believe that cooperative efforts with our historic allies are not harmful to U.S. interests. To the contrary, these recent agreements and the post-World War II institutions have been beneficial to those who participated in them, including and especially the U.S.

Any American who thinks the world is unsafe now should contemplate a world in which there was no NATO, no European Union, no World Trade Organization, no UN. In that world constant trade wars could lead to real wars, and the U.S., as the dominant power, invariably would be called upon to lead alone.

Our ties with Europe predate the establishment of our country. We gained our independence from England by revolution, but we retained England's language, laws and customs. Although our early relations were hostile, over time the two countries formed what remains a "special relationship."

As our nation grew to settle a vast continent, we welcomed millions of immigrants from all over the world, and especially from Europe. As a result, we have deep bonds of blood with Europe, not just legal relationships. While we compete in many ways, we should not think of them primarily as adversaries. They also are our partners and our allies. Although they do not always agree with us, or even among themselves, for the most part they admire our country and they share our values and our interests.

The U.S.'s Vital Role

Because it is in our interest, and theirs, we should do all we can – politically, economically, militarily, and otherwise – to help the people of Europe and of Canada to remain democratic, united, free and prosperous.

I have confidence in our country and our people. I believe that our democratic institutions remain strong and that science and reason will prevail over fear and looking backward. I believe we must, we can, and we will devise the policies to deal effectively with these and the many other challenges that we will confront in the coming decades.

To do so, we must be true to our principles. Our democratic ideals distinguished our nation from the very beginning, and they always have appealed to people all around the world. They still do. Our economic strength and our military power are necessary and important. But our ideals have been and are the primary basis of American influence in the world.

They're not easily summarized, but surely, they include: the sovereignty of the people; the primacy of individual liberty, our highest value; an independent judicial system; the rule of law, applied equally to all citizens, and, crucially, to the government itself; and opportunity for every member of our society.

We must never forget that the United States was a great nation long before it was a great economic or military power. We recognize that all human beings and all human institutions are imperfect. We acknowledge that we are not always right, and we can never be perfectly consistent, but we can and must work harder and better to live up to our principles, as individuals and as citizens of our countries.

Finally, we must especially work to more fully realize the aspirations of opportunity for all peoples. No one should be guaranteed success, but everyone should have a fair chance to succeed.

From the experience of our daily lives we know that opportunity for all remains an aspiration. We must make it a reality. We must raise our actions to the level of our aspirations.

The biggest challenges for CEOs in the coming year(s) will be the unpredictability of the markets and governments around the world. Business leaders are accustomed to dealing with uncertainty, but the nature, type and amount of uncertainty is unprecedented in the recent past. International uncertainty -

China, Europe, Brexit, Korea; trade; protectionism (global, U.S.); tax reform; a dysfunctional government; an unpredictable executive branch; digitization, AI and cyber threats; activism; and the call for CEO’s to become more involved by society and government. The successful CEO will be one that is focused, clear minded, fearless, well informed, flexible and well connected and well advised at a minimum.

Our goal should be to live in a society that encourages striving and celebrates success, is conducive to innovation, and enables us to benefit from the talent, energy, and skill of every citizen. That’s our challenge. We must make it our destiny.

Markets

An Overheated Economy?

Nicole Sinclair, Managing Director

Despite the laundry list of potential threats to the economy—from political turmoil to trade disputes, inflation, and tighter monetary conditions—most market prognosticators and economists see continued strong financial conditions in 2019.

Confidence in the ability to 'climb the wall of worry' is, after all, supported by a strong backdrop. Look no further than the labor market, with monthly new jobs exceeding 200,000 for much of 2018 and the unemployment rate below 4 percent.

But a chorus of bullishness, supported by strong trend data points—from upbeat business sentiment to capacity utilization and the Institute for Supply Management—have preceded past recessions. And that includes the most recent two (2008 prompted by overheating in the housing market and 2001 by the dotcom bubble).

Ultimately, it's not about whether or not a recession will come, but instead what will cause it or when it will happen. And with the recovery approaching 10 years, those looking at business plans must have on the top of their mind: Could a slowdown come this year?

First, let's start with the bright spot of labor. While the return to 'full-employment' hasn't seemed to cause a significant increase in wages (and correspondent fears about inflation), a spike from here could be looming. Even with a low so-called 'participation rate' (or the percentage of working age people either working or actively looking for work), the labor market is getting tighter. In fact, one of the biggest risks to the jobs market is low labor force supply. The biggest problem businesses are facing going forward is finding workers to fill jobs—and finding the skilled and educated workers they need to drive their businesses forward.

Second, tax reform (i.e. significant fiscal stimulus).

Given that loose monetary policy (and record-low interest rates) has been the market stimulant over the course of this recovery, the importance of gradual interest rate increases from the Federal Reserve will be key so as not to jolt markets. And while the rhetoric of Jerome Powell, who took over as Fed Chair at the beginning of 2018, has been generally dovish in tone, fiscal policy presents a wrinkle. Powell has noted that fiscal stimulus (and its accompanying growth) could prompt faster rate hikes. After all, the tax cuts passed at the end of 2017 ($1.5 trillion of fiscal stimulus) came at a time of already-strong growth.

That matters, because if more rapid increases seem necessary at a time when the core fundamentals of the economy aren't sustainably strong, it could lead to what's known as an "inverted yield curve," which has preceded every recession since World War II.

This phenomenon, which occurs when interest rates on short-term debt (represented by the 3-month Treasury and largely determined by the Fed) are higher than those on long-term debt (represented by the 10-year Treasury and determined by the marketplace based on overall economic outlook), is an indication of economic weakness.

So while the fiscal stimulus has seemed to push the economy from late-cycle to mid-cycle, it could portend a downturn. A starker change in rates could be particularly impactful to the U.S. given that the eurozone and Asia are holding to a zero-interest rate policy.

Third, the risks surrounding a façade of strength. GDP, on track to hit 3 percent for the year, is largely driven by fiscal stimulus (i.e. tax reform) as opposed to strong underlying core demand. So again, if the Fed feels compelled to raise interest rates more rapidly to keep up with current growth (of which a good portion is a façade), the lack of sustainability of that growth (particularly when the fiscal stimulus ends) poses a risk.

Fourth, the looming trade threat: Trump has increasingly focused on protectionist policies when it comes to trade. His NAFTA renegotiation seems to point him to, again, going after China.

Near-term, higher tariffs threaten to hurt the economy through higher prices of imported goods. After all, tariffs act like a tax which puts downward pressure on the purchasing pressure of American consumers.

Additionally, there is a significant risk of a trade war, or retaliatory ("in-kind") tariffs in response from other countries, and this would be particularly harmful to U.S. multinationals that have large portions of sales internationally (30 percent of the revenues for S&P 500 companies come from outside of the U.S.).

Trade tensions are already impacting the M&A market, with certain deals in the technology sector being called off and essentially putting a halt to many international deals in that sector, at least for the time being.

Plus, any slowdown in China affects us at home. The interconnectedness of the global economy means that it is in the interest of the U.S. for other countries to grow. China's economic health is key to the global system, given the spending power and rising middle class. And if demand slows there significantly, it affects the U.S. For China, economists worry about a "hard landing" (versus more manageable easing) following years of high GDP.

Jim O'Neill, the former Chief Economist at Goldman Sachs who is famous for coining the term "BRIC" (Brazil, Russia, India and China), identified two decades ago the increased importance of these regions in the new global order and interconnected global system.

And **fifth**, there are fewer tools in the 'tool kit.' In other words, when a recession hits, there are less levers to employ to stabilize the economy. While the Federal Funds Rate has come off its zero percent level, it remains far below the five percent level in 2007. Meanwhile, the higher deficit—which is expected to reach $1 trillion by 2019—means there is less insulation if a stimulus package (like the 2009 American Recovery and Reinvestment Act) is needed.

The Bottom Line

The fundamentals of the U.S. and global economy are strong, creating a solid foundation for the market in 2019. However, questions around the sustainability of the economic growth at this point in the cycle, create some preliminary warning signs for a recession.

In the meantime, there is no question that the market has continued to climb the so-called “wall of worry” and shows no immediate signs of a shift from that trend. The economic recovery cycle has indeed been extended – the question is just for how long.

The Artificial Intelligence Bandwagon

Tim Burt, Senior Managing Director

Opposite the London office of Teneo, next to the Shipwrights Arms pub, there is a taxi stand. There are usually a few of the city's famous black cabs waiting. Take a ride, and the cabbies invariably grumble about having to watch potential customers climb into Uber ride-hailing cars that collect passengers across the street.

The London taxi trade is an unlikely battleground for the future of Artificial Intelligence (AI). But economists Ajay Agrawal, Joshua Gans and Avi Goldfarb, based at the University of Toronto, argue that the taxi industry is just one of the sectors facing an AI upheaval that might be paralyzing.

In their book Prediction Machines, Agrawal, Gans and Goldfarb summarize the disruption to the London taxi trade by writing: "Cabbies who invested three years of studying to 'The Knowledge' did not know they would someday be competing with prediction machines. Over the years, they uploaded maps into their memory, tested routes, and filled in the blanks with their common sense. Now, navigation apps have access to the same map data and are able, through a combination of algorithms and predictive training, to find the best route whenever requested, using real-time data about traffic that the taxi driver cannot hope to know."

Artificial intelligence has spawned a whole industry of ride-hailing services around the world. Automotive companies are rushing to join the bandwagon, with every leading manufacturer launching mobility services or forging partnerships with the likes of Uber or Lyft. Even the owner of the London Electric Vehicle Company, the manufacturer of London black cabs, has joined the AI arms race. Zhejiang Geely Holding Group, China's largest privately-owed automotive group which acquired the former London Taxi Company in 2008, is also the founder investor of Cao Cao, the operator of more than 20,000 electric ride-hailing cars across 26 cities in China.

Li Shufu, Chairman of Geely Holding, believes such mobility services will revolutionize road transport when smart algorithms are combined with autonomous vehicle technologies. “Automated Driving is going to shake the foundations of the automotive industry,” according to Li. “It’s an environment that will be able to liberate the driver, lower the number of accidents, improve the efficiency of roads and improve fuel economy. Automated driving is the future of the automotive industry’s development and will bring greater value to society.”

High Stakes

The research firm IDC predicts that the market for the Internet of Things (IoT) – with AI as its beating heart – will grow to $1.7 trillion dollars by 2020, a near threefold increase over the past half-decade. Over that period, IDC expects the number of so-called ‘IoT’ endpoints such as automated cars, smart phones and robotic systems will reach almost 30 million.

Rival analysts and researchers at McKinsey believe that AI will create significant value across multiple industries, with the markets in retail, transport, logistics, travel and healthcare systems among those expected to see a major transformation. In its 2018 report Notes from the AI frontier, McKinsey says: “We estimate that the AI techniques together have the potential to create between $3.5 trillion and $5.8 trillion in value annually across nine business functions in 19 industries.” This value opportunity is creating hope and striking fear into large parts of the corporate world in seemingly equal measure.

Of course, AI is not new. Different forms of such technology have been transforming business since the Industrial Revolution. From autopilot in aircraft to cruise control in cars – and latterly to smartphones – consumers have mostly adapted and taken each new innovation for granted. What is now changing is the pace, the sophistication and complexities created by the latest generation of AI systems. According to McKinsey, the key transformation has been the ability of machine learning systems to model the way that neurons interact in the brain. This, in turn, is creating ‘deep learning’ techniques in what AI enthusiasts described as “neural networks” that have the power to transform data and to apply predictive processing power into completely new ways of doing business.

AI specialists talk of three categories of neural networks that are changing the way we all interact with machines and with each other. These categories are ‘feel forward, recurrent and convolutional’ neural networks. At this point, the language of AI frequently descends into levels of complexity and jargon that frazzles the minds of most ordinary businessmen and women. But in industries from agriculture to mining, or from consumer-packaged goods to telecommunications, the benefits boil down to a simple phenomenon: competitive advantage. Companies with smarter and relevant AI tend to be more competitive. They tend to have a lower cost of capital, a higher return on capital employed, more pricing power, more loyal customers and better-quality products and services. That, in turn, feeds through to higher margins, growing cashflow and share-value creation.

For industrial groups and manufacturers, one example of competitive advantage from AI lies in predictive maintenance. This is the power of machine learning to detect anomalies in assembly lines – and thereby reduce downtime and increase productivity. In logistics, meanwhile, AI systems can optimize delivering routings to cut costs and speed-up traffic management. And AI promises to revolutionize customer service and product recommendations.

Citing examples from the retail and content industries, Michael Chui and his fellow researchers at McKinsey say: “Combining customer demographic and past transaction data, with social media monitoring can help generate individualized product recommendations. ‘Next product-to-buy’ recommendations that target individual customers – as companies such as Amazon and Netflix have successfully been doing – can lead to a twofold increase in the rate of sales conversions.”

Transforming Work

Clearly the transformative nature of AI applications could be enormous. But they come at a price. Greater automation will change the way current business processes happen, with an obvious knock-on effect on jobs. Some commentators fear that AI will make assembly-line workers, logistics staff and retail employees metaphorically and literally redundant. Those who earn the least – non-skilled or semi-skilled factory workers or warehouse employees – and who can least afford to lose their jobs may be displaced by growing numbers of robots and algorithmic systems.

Martin Wolf, the chief economics commentator of the Financial Times, paints an apocalyptic picture of the social consequences of machines replacing workers. He fears grave social consequences if smart algorithms make knowledge-acquisition just a past-time and dispense with the need to work. In a recent column, Wolf questioned the future of society "in a world in which few people can do anything that is obviously economically productive. The world might become techno-feudal, with an owning elite hiring great numbers of human servants not for their value, but for the pleasure of domination." The alternative, he suggested, could lead to a society on which: "People might instead share the abundance more equally, with all enjoying civilized leisure that was once the province of the very few. Ours is the first civilization to view work as the highest calling. Maybe that strange prejudice will need to be discarded."

The reality is that no-one quite knows how the AI revolution will evolve, or what the broader societal impact will be. We are just at the frontier of what might be possible in terms of automation. But it is a safe bet that it will, at the very least, transform the world of employment.

Andrew N. Liveris, Chairman Emeritus of the Dow Chemical Company, is among those concerned about this risk-benefit equation. "The digitization of supply chains is going to accelerate with the rise of artificial intelligence, along with the automation of factories as first-generation robotics are upgraded with the addition of Big Data," he says. "If companies fully adopt artificial intelligence it might increase their operating efficiency but lead to significant declines in employment. Millions of jobs could be affected by the digitization of production lines."

And it will not just be manufacturing or blue-collar jobs that could become dispensable. Even sectors as oriented to personal choice as fashion and design could be affected. "Clothing design is only the leading edge of the way algorithms are transforming the fashion and retail industries," wrote

Naom Scheiber in the New York Times in July. “Companies now routinely use artificial intelligence to decide which clothes to stock and what to recommend to customers.”

Return on Investment Hurdles

One of the basic business laws that could hold back this tide, and give companies and their workers time to adapt, is the need to guarantee a return on investment.

Some consultants regard the cost and complexity of deploying AI as simply not worthwhile compared with the value generated. Few carmakers, for example, have yet explained the business case for AI. Tesla, one of the early adopters and main advocates of automated driving, has never turned a profit. Most car brands with electric vehicles make much more money and higher margins from gasoline and diesel models than their zero-emission counterparts, even though they have all vowed to combine electrification with automation in years to come.

AI also comes with huge potential legal and regulatory liabilities. An automated car that hits a pedestrian, as happened in Arizona earlier this year, can pose a nightmare for insurers and could inflate the potential legal costs of ride-hailing services. The same is true in medicine where zero failure rates would be required to minimize malpractice claims for AI diagnostics and healthcare testing. To this mix should be added the growing public backlash over the misuse and reselling of private data, which has undermined trust in companies seeking to commercialize individuals’ personal information.

Rising consumer, legal and regulatory concerns about AI have therefore reduced trust in its benefits. This, in turn, has forced AI advocates to be open about its limitations.

Even the most ardent AI enthusiasts admit that the one thing machine intelligence lacks is judgment. Essentially, AI relies not on the ability to make judgments, but on predictive learning and the constant refinement of data that – when combined together – helps reduce uncertainty in many forms of commercial activity and business services.

Take the retail industry. As AI is adopted more widely, there will be more predictive shopping services, with anticipatory product deliveries before customers even order them. Predictability will be enhanced by smarter use of data and machine-understanding of consumer preferences. And constant evolution of AI machines based on data feedbacks and scenario-mapping will require less human control for everyday tasks from parking a car to school-testing or book-keeping.

So, what may yet save us in terms of human-machine interaction is personal judgment. It requires human intervention and ingenuity to decide how to apply AI and, critically, to recognize its limitations. This is particularly true when it comes to safety-critical machinery.

Nowhere is that combination of human ingenuity better displayed than at Tytyri, a limestone mine about 50 kilometers west of Helsinki, the Finnish capital. This mine is the research and development hub of Kone, one of the world's largest elevator manufacturers. Here, deep underground, the company uses AI to determine the safety of next generation elevators in shafts that drop hundreds of meters below the earth's surface.

There are, in total, 11 elevator shafts with a combined length of 1.6 kilometers that test the speed, the braking power and the latest standards of elevators – one of the earliest forms of mass transit. We tend to take elevators for granted. But they are vital and complex components of all tall buildings, without which high-rise urbanization would grind to a halt.

At the Tytyri mine, Kone uses AI sensors and data systems to test critical safety on elevators which might be dropped 200 meters, at speeds of up to 26 meters per second, to see if its safety equipment can stop it successfully. Kone uses AI to detect that the car is speeding downward, and which then deploy a metal wedge into a channel in the elevator-shaft guide rails. As friction builds between the wedge and the rail, the elevator car comes to a stop at a comfortable rate. The company has teamed up with IBM to take predictive machine-learning to the next level. It is using the IBM Watson IoT platform to enable escalators and elevators to talk to the cloud intelligently and in real time. The data derived from the cloud allows building managers to monitor systems and to schedule upgrades or maintenance work before problems occur.

Paying for AI

In a recent article published on Kone's website, Andy Stanford-Clark, Chief Technology Officer, UK and Ireland, Distinguished Engineer, and Master Inventor at IBM, said: "If we can predict maintenance problems, to tell when something is going to fail rather than service something once a year, or wait and then react when it breaks down, the savings in terms of cost and time can often pay for the investment in IoT and AI technologies on its own." The Kone-IBM partnership illustrates another key element in the evolution of AI: few companies can develop it on their own. The AI sector is spawning a new era of partnerships. Legacy manufacturers, aware of huge development costs and uncertain returns from machine learning, are increasingly forging deals or buying in AI expertise to mitigate the investment risks.

This is particularly true in the auto industry, where some of the world's largest brands are turning to outside experts for automation systems. Nissan, one of the most advanced users of self-driving systems, has, for example, teamed up with DeNA, the Japanese internet technology company, to develop a new ride-hailing service using automated vehicles. Their 'Easy Ride' service has begun tests with robo-vehicles in Nissan's hometown of Yokohama. The goal is to allow customers to use a dedicated mobile app to complete the whole process from setting destinations and summoning vehicles, to paying the fare.

And companies such as Nissan are not just signing commercial ties-ups. They are hiring experts who can apply different sorts of judgment to next-generation autonomy. One of those is Melissa Cefkin, a cultural anthropologist who now leads the "Human Centered Systems" practice at the Nissan Research Center in Silicon Valley. Her job: to predict the unpredictable and see how a machine can apply it. The idea is to try to ensure that an automated car will, in future, be able to make a judgment call about an unforeseen road event, such as a child chasing a ball into the road and making a decision to swerve into oncoming traffic – something most automated systems would prevent – to avoid the worse of two accident-scenarios.

Working with other social scientists at Nissan, Cefkin explains: "We are expected to provide results that can be implemented into algorithms, resulting in a challenge to our social science perspective: How do we translate what are observably social practices into implementable algorithms when road use practices are so often contingent on the particulars of a situation, and these situations defy easy categorization and generalization?"

Critical Input: CEO Judgement

This is the crux of the AI frontier. Machines can be programmed to predict behaviors in a whole range of industries and services. But they have not yet learned – or been programmed – to apply judgment to make different types of decision. Whether in medicine or schooling, or from assembly lines to warehouse management, AI will clearly reduce waste, speed up systems, enable predictive ordering and product deliveries. It could transform cost-management and greatly enhance operating efficiency – partly at the cost of traditional jobs. Machine learning, combined with smart data management and predictive systems, will become vital for companies to compete in the new age of efficiency linked to AI.

But it is the ability to apply and judge when and how to use such AI that will redefine and ultimately protect the role of the individual. As the authors of Prediction Machines admit: "If judgment could be well specified, then it could be programmed, and we wouldn't need humans to provide it." Happily, that is not yet the case. The applications and value of machine learning remain something that individuals in business, in public service, in education and health, can still determine how best to use and when to avoid – using human intuition and judgment. It is human unpredictability, the irrational behavior that for many years was seen as a management weakness that might – just might – become a management strength in the coming era of ubiquitous AI.

The Kids Are All Woke: Relevancy Amidst Demographic Change

Chris Jones, Vice Chair, UK, Strategy & Communications and Hamish Docherty, Consultant

Over 25 years, we have experienced deep and lasting levels of geo-political, technological and social disruption. The consequences of 9/11, the 2008 global recession, the gathering pace of globalization and the increasing digitization of everyday life are well documented and largely understood by business leaders.

One crucial area of disruption that is often overlooked and mis-understood is the silent demographic shift taking place that will see under 25-year-olds (also known as Gen Z) account for 25 percent of the global workforce by 2020.

As a direct result of the changes in geopolitics, society and technology, this cohort of future employees and consumers will display very different characteristics to their predecessors. In particular, the pace of technological change over the last two decades has acted as a catalyst, making this generation true ‘digital natives’ with the power, and the ambition, to invoke challenge and change. So, in light of this cocktail of rapid technological, political and socio-economic change, how do business leaders successfully engage with and attract the next generation of talent and customers?

While the world has been preoccupied with understanding and criticizing Millennials (those born between 1980-1995), and most often lampooning them as ‘entitled snowflakes,’ Gen Z are following quick on their heels. Of course, the traits and characteristics of Millennials and Gen Z aren’t rigid, and Gen Z in particular, are largely under-researched. Nonetheless, there are a number of emerging themes worthy of consideration by business leaders.

To this end, Teneo commissioned a series of focus groups with young Millennials and Gen Zers in London to better understand their values and attitudes to business and business leaders. We asked them about the characteristics of their dream employers, which (if any) business leaders they admire, and explored their thoughts on their ideal workplace culture. The insights gleaned from these sessions have been combined with other independent research to inform this article.

Gen Z and Activism

For decades, CEOs and business leaders across the world have struggled to engage with and remain relevant to the 'youth.' Often seen as out of touch with the rapid changes taking place in society, many of these business leaders have faced continuous criticism over pay, a lack of diversity, environmental performance, and for being blinkered in the pursuit of company profits - and personal gain - above all else. Unfortunately for those business leaders unwilling to engage and adapt, Gen Z and many young Millennials are already demonstrating increased interest and even activism in these areas – a trend that is only likely to intensify.

The gap between the world's business leaders and the world's latest generation of workers and consumers has never been greater. On the one hand, Gen Z's interests and technical capabilities make them the most effective campaigners and activists the world has ever seen, creating a potent threat to businesses unwilling or unable to change. But on the other, there is a precious opportunity for astute and future-gazing business leaders to step up and engage, and in doing so, help to ensure the long-term prosperity for their organizations. It is an opportunity to build enduring competitive advantage by attracting and retaining future talent; by becoming a preferred partner to new and innovative companies; by enjoying lower cost of Gen Z customer acquisition; and by winning greater permission within this cohort to innovate.

Perhaps unsurprisingly, the strongest and most disruptive characteristics of Gen Z stem directly from their own experiences. In their brief lifetimes, they have grown up in a post-9/11 world, lived through the worst recession since the 1930s and are the 'guinea pigs' of the first truly digital age. This combination of geopolitical unpredictability and rapid technological advancement have created a generation who have never known anything but constant volatility and transformation.

Having spent their whole lives in a constant state of flux and change, Gen Z crave a sense of stability and balance in their lives – both at home and at work. Growing up amid fierce competition, they are not only innovative, but seek to be self-reliant and solutions-focused. Unlike their Millennial predecessors, their experiences to date have left them realistic and cautious rather than idealistic and optimistic. Our focus group participants called themselves "anti-establishment" and "challengers" – they don't just want to follow the status quo, they want to make their mark.

Described by some as 'Millennials on steroids,' Gen Z have built on many of the passions and values of young Millennials which give a good indication of their trajectory. Gen Z are even more focused on diversity, even more committed to social responsibility, and absolutely believe that work should fit with life – not the other way around. Most importantly for Gen Z, they want to have a job they love and a job that makes them feel like they are having a positive impact on society.

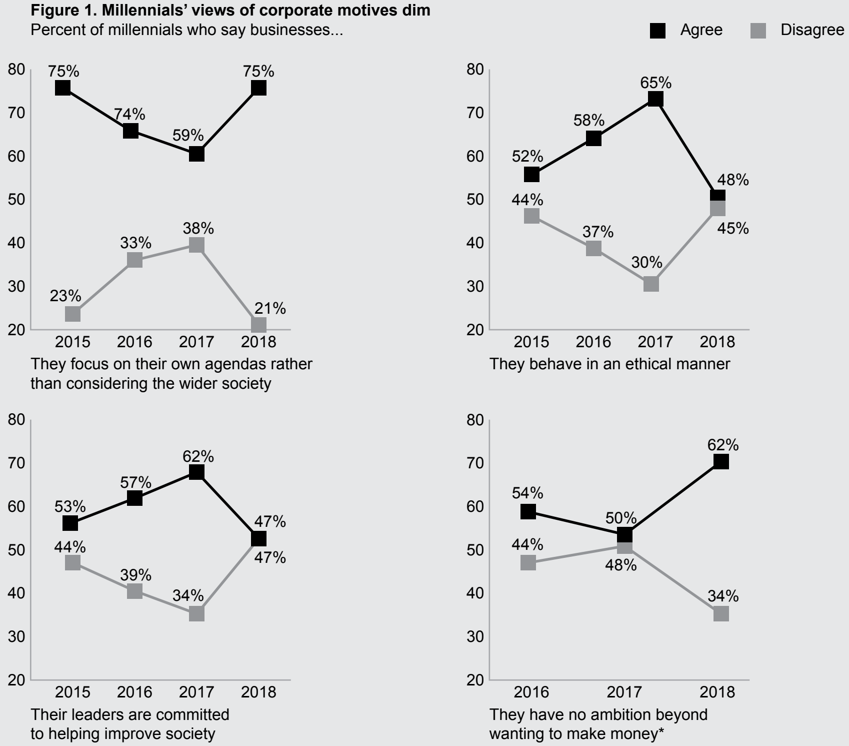
Z-Power at Work

Technology, and crucially the smart phone, has given Gen Z unrestrained access to information that once seemed distant, complex and irrelevant. Today, Gen Z can read about civil unrest in the Middle East, ocean plastic pollution, persecution of LGBTQ communities, and other causes that they care passionately about, anywhere and anytime. Technology has empowered this new generation and given them the agency to affect change. They can now mobilize groups, launch campaigns and influence communities, all with the tap of a screen.

This powerful ability to mobilize groups remotely - 'Z-Power' - was recently illustrated by the 'March for Our Lives' movement, organized by students following the tragic shooting of 17 students and staff at the Marjory Stoneman Douglas High School in Parkland, Florida. The events in the weeks immediately after the shooting demonstrated the speed (and effectiveness) with which Gen Z can mobilize to make the case for change. Within weeks of the tragic shooting, this group of young people had organized a Washington march of more than 200,000 people, raised millions of dollars via GoFundMe, and inspired more than 800 other groups to protest gun laws in cities across the U.S. and internationally.

For Gen Z, this theme of social justice and meaningful impact isn't confined to their personal lives, but also influences their attitudes to the world of work. Deloitte's Millennial Survey 2018 provides a useful insight into young people's attitudes towards business. Although focusing on Millennials rather than Gen Z specifically, the results provide a telling insight into a topic that we know is important for Gen Z and will only intensify. As shown by the graphs below, Deloitte's survey found that attitudes towards business among Millennials has declined on each key indicator, which include topics of particular interest to Gen Z, such as contribution to society and ethics.

Figure 1. Millennials' views of corporate motives dim
Percent of millennials who say businesses...



Q12 Thinking about businesses around the world, would you agree or disagree that, on balance, the following statements describe their current behavior? Base: All millennials 10,455
* "They have no ambition beyond wanting to make money" not asked in 2015
Source: Deloitte, 2018 Millennial Survey, 'Millennials disappointed in business, unprepared for Industry 4.0'

Less than 50 percent of those surveyed believe that corporations behave ethically or that business leaders are committed to helping improve society. Meanwhile, over 60 percent believe that business has no ambition beyond wanting to make money[1]. Knowing what we do about the values of Gen Z and that Gen Z are like 'Millennials on steroids,' makes for worrying reading.

The Battle for Talent

As Gen Z moves into the workplace, the first challenge for business leaders operating in this new environment is the battle for talent. Traditional strategies for employee recruitment and retention will not be sufficient to attract and retain the next generation of bright, young graduates. There are already reports that some well-established, blue chip companies, perceived by the Baby Boomer generation as offering 'golden ticket' jobs, are now struggling to appeal to this new cohort of talent.

When asked to rank the importance of work values, Gen Z ranked 'interesting work' first, followed by 'pride in the organization,' and then 'passion for the work.'[2] For the first time, this shows a desire by Gen Z to prioritize the purpose and value of their work, over other factors like salary. No longer will a competitive salary be sufficient to entice these ambitious employees. Instead, companies will have to take a more holistic approach. Prudent business leaders anticipating this trend, such as BlackRock Founder, Chairman and CEO Larry Fink, have already spelled out to business the importance of company purpose and the creation of social value.

In many ways, Larry Fink's Letter to CEOs in 2018 could have been written by a member of Gen Z. Highlighting the importance of "social purpose" in business and the need for companies to benefit all stakeholders, including the communities in which they operate, Fink called on business leaders to prove their purpose and social value (beyond profits) or risk losing BlackRock's support. If business leaders listen to Fink's call on businesses to ask themselves "What role do we play in the community?", we might see a significant uptick in the perceptions of business among young people.

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[1] Deloitte, 2018 Millennial Survey, 'Millennials disappointed in business, unprepared for Industry 4.0', P5.

[2] Lovell Corporation, 'The Change Generation Report: How Millennials and Gen Z are Redefining Work 2017', P9.

High Expectations

When we asked our focus groups about what they wanted from their future employers, one participant said the idea of having a job and just “slogging it out” was outdated. Instead, they argued, it was important to enjoy coming to work and to be proud of your employer.

This sense of pride and fulfilment also influences the types of companies Gen Z want to work for. Research into the career aspirations of Gen Z in Canada by the Lovell Corporation last year found that entrepreneurship, public service work and healthcare were the most popular career paths, demonstrating a clear shift towards occupations providing a social and meaningful impact[3]. Meanwhile, in one of our focus groups, we heard that the reason why so many young people want to work for charities is because: “you are proud to work for them and their business strategies are based in value.”

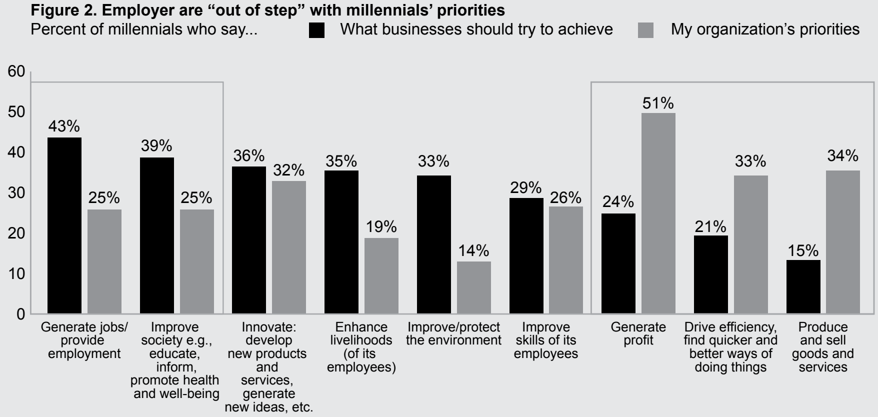
When asked about their dream employers, our focus group participants largely rejected many of the traditional and well-established companies, favoring instead disruptors and challenger brands like Tesla and Netflix. This desire to work for new and disruptive companies might seem counter-intuitive for a generation scarred by a history of instability and volatility, however the groups agreed the risk now lies in working for the established and static companies, who are currently being disrupted by more innovative and agile challenger brands.

The graph below clearly illustrates the perception among young people that business is falling short of their expectations. Whilst over a third of those surveyed expected businesses to provide employment, improve society and protect the environment, less than a quarter felt that these were priorities for the organizations they worked for[4]. This gap between the expectations of businesses and their employees will become a critical factor for businesses trying to recruit and retain future talent. Business leaders willing to take concrete steps to close this gap are likely to be rewarded by attracting the next generation of highly-motivated, committed and innovative employees.

[3] Lovell Corporation, ‘The Change Generation Report: How Millennials and Gen Z are Redefining Work 2017’, P7.

[4] Deloitte, 2018 Millennial Survey, ‘Millennials disappointed in business, unprepared for Industry 4.0’, P6.

Figure 2. Employer are "out of step" with millennials' priorities



Q11a: Which of the following words and phrases match your own belief as to what business should try to achieve? Select up to three. Base: All millennials 10,455
Source: Deloitte, 2018 Millennial Survey, 'Millennials disappointed in business, unprepared for Industry 4.0'

Leadership Principles

One of the most poignant comments to come out of our focus groups was from one young woman who said: "I don't expect a company to be perfect, but I expect a company to be honest." This is reinforced by research showing that honesty and integrity are Gen Z's two most valued leadership characteristics[5]. Young people are tired of opaqueness and untruths from businesses and politicians, which has unsurprisingly led to an erosion of public trust. They want to know what has gone wrong and what you are doing to put things right.

This is an important lesson for business leaders in general and reflects much of the counsel we give to clients in dealing with issues and crises. It doesn't always feel like it, but the general public understand companies and their leaders aren't perfect. And they are much more willing to forgive if a leader puts their hands up and admits to a mistake.

Our focus groups named Elon Musk as one of the world's business leaders they admire most. They called him a "maverick," a "visionary" and a "challenger." They felt that he wasn't part of the status quo and that he was willing to look at things differently. They admired his efforts to make a positive contribution to society. However, ultimately, they admired his tenacity to challenge the establishment and not conform to its orthodoxies.

[5] Robert Half, 'What Gen Z Wants from Employers (In Their Own Words)', 2016.

The Battle for Customers

The impact of the shifts in the values and attitudes of Gen Z aren't limited to the recruitment and retention of employees, but also has ramifications on the purchasing decisions and behaviors of Gen Z consumers. Some estimates predict that Gen Z will make up almost 25 percent of the American population by 2020, meaning their impact on the consumer environment will be material.

One of the strongest traits of Gen Z, the desire to have a meaningful and positive impact on society, will translate into their purchasing decisions. Research by Ipsos MORI in 2018 found that 26 percent of school children in the UK have avoided purchasing certain products because of the conditions under which they were produced[6]. This contrasts with just 19 percent of Millennials when surveyed at the same age. If true, this demonstrates a surprising level of societal and ethical awareness among school children that is already having a tangible impact on their purchasing decisions.

Even today, sustainability and ethics pledges are too often highly polished CSR programs. We are now seeing a growing demand from consumers for corporate responsibility to be built into the operating model of companies. More so than previous generations, Gen Z are highly informed about issues ranging from sustainable cotton to modern slavery; and research suggests this awareness is having a tangible impact on purchasing decisions. A global study conducted in 2017 found that 55 percent of Gen Z explicitly choose brands that "are eco-friendly and socially responsible."[7] The resurgence of sustainable brands like Patagonia illustrates this trend. Ultimately, there is a growing expectation that companies should operate sustainably and at scale, day-in, day-out, rather than using CSR projects as a 'bolt-on' to business as usual.

Whilst research currently shows that price is still the most important factor for shoppers, some studies are starting to show a shift in mainstream attitudes that questions this trend. A report by Nielsen found that 66 percent of global consumers are willing to pay more for sustainable brands, a 55 percent

[6] Ipsos MORI, 'Gen Z – Beyond Binary: new insights into the next generation', 6 July 2018.
[7] IBM Institute of Business Value and the National Retail Federation, 'Gen Z brand relationships: Authenticity matters', P8.

increase on the previous year[8]. When Millennial respondents are isolated, this number rises to 73 percent[9]. Although the results aren't comprehensive, they provide a good indicator of where the purchasing habits of Gen Z could be heading.

This growing trend offers a prime opportunity for those business leaders able to transform their business models to close the expectation-reality gap of their Gen Z customers. Amid intensifying scrutiny from the media, activists and regulators, business leaders that successfully meet this challenge will build accelerated reputational and commercial value.

Co-Creation

The result of growing up in a world of easily-accessible online shopping, customized user experiences and fast-changing trends means that Gen Z is becoming increasingly demanding of their service providers. They want products to be delivered quicker, services to be customized and interactions with companies to be frictionless.

This generation of consumers demand instant gratification – be that bingeing on a Netflix TV series or receiving next-day deliveries. Companies, including Amazon, have implemented business strategies specifically to try and meet these changing demands. Clothing brands, like ASOS for example, offer customers fast delivery times and free returns in an effort to win over these hard to impress customers.

There is no easy answer to meeting the demands of Gen Z, however the answer may actually lie in collaborating and co-creating with these hard-to-please consumers. We are seeing a growing trend of Gen Z wanting to engage more with brands and seeking to help companies improve their products and services. IBM's study found 44 percent of Gen Z would submit product design ideas, if given the chance, and 36 percent would create digital content for a brand[10]. This shows that whilst they may be highly demanding, Gen Z want to

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[8] Nielsen, 'Consumer-goods' brands that demonstrate commitment to sustainability outperform those that don't', 12th October 2015.

[9] Nielsen, 'Consumer-goods' brands that demonstrate commitment to sustainability outperform those that don't', 12th October 2015.

[10] IBM Institute of Business Value and the National Retail Federation, 'Gen Z brand relationships: Authenticity matters', P5.

work with business and solve problems together. Business leaders needn't try and guess (and fall short) of what Gen Z want, instead they should engage and involve them in the shaping of their products and services.

Demanding Consumers

So, you've followed every rule. You've demonstrated your brand's sustainability credentials, the value of your company to society and worked with Gen Z to create products and services they love. But don't expect gratitude. After all of this, business leaders will still be faced with the difficulty of an increasingly disloyal customer base in Gen Z.

Gen Z are the world's first 'digital natives' who have all grown up with online retailers like Amazon and eBay at their fingertips. As a result, they are highly-informed and canny consumers, using an array of tools and channels to find the products and services that are best for them. A study conducted by EY found that Gen Z are less loyal to retailers than other generations, and that even the use of traditional loyalty rewards programs and cards doesn't make Gen Z any more loyal to retailers[11].

Despite this, brands that successfully engage with and connect with Gen Z can expect to earn greater loyalty, with 66 percent saying that once they find a brand they like, they will continue to be repeat shoppers[12].

In a world of seismic change taking place before our very eyes, it's easy to miss the equally seismic, yet non-physical, changes taking place demographically. Those companies led by short-sighted business leaders who overlook (or worse, ignore) the demographic changes taking place in society will undoubtedly pay a price.

Gen Z has already started entering the workplace and the market place. Businesses must act with urgency to understand and engage with a new generation of citizens, employees and consumers. Gen Z will soon become one of the largest and most active consumer groups in history. It is fast setting out its expectations and will punish companies and organizations that fall short.

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[11] EY, 'What if the next big disruptor isn't a what but a who?', P9.

[12] IBM Institute of Business Value and the National Retail Federation, 'Gen Z brand relationships: Authenticity matters', P4.

The battle for talent and for customers has never been as fierce, and only those leaders brave enough to step up and meet the challenge of Gen Z will reap the reward. Those standing still risk waking up to find themselves outdated and irrelevant.

Actions for Business Leaders

1. Take the time to consider the characteristics and attitudes of Gen Z and how they contrast with Millennials and the Baby Boomer generation. What are the implications for your leadership style?

2. Ensure your organisation has a clear social purpose and can demonstrate social value to the community in which it operates, over and above driving profit.

3. Examine your corporate and organisational culture. Make changes that better reflect the needs and values of prospective employees to both attract and retain new talent.

4. Adapt your recruitment and marketing activities to reinforce the key traits that Gen Z seeks in employers and businesses: social value, flexibility and authenticity.

5. Harness the innovative and entrepreneurial qualities of Gen Z to help co-create and improve products and services offered to an increasingly vocal and active consumer group.

A New Definition of Media for CEOs

Seth Martin, Managing Director and David Lurie, Vice President

Last year Teneo's Vision 2018 foresaw the larger role that CEOs would be compelled to take in public debates, and in policymaking. The die was cast in the second half of 2017 as a polarized American society, and employees, began demanding this of corporate leaders, and accelerated in 2018 with CEOs taking strong stands on polarizing issues. Following the Parkland High School shooting in February, Edward Stack of Dick's Sporting Goods restricted gun sales despite, as he later acknowledged, the impact on Dick's bottom line. In the wake of #MeToo and heightened gender pay concerns in Silicon Valley, Mark Benioff closed the gender pay gap at Salesforce with the stroke of a pen in April. And in September, the CEOs of Nike and Columbia Sportswear came out publicly against the repeal of Oregon's sanctuary city law.

Thus in 2018 we saw more CEOs taking public positions on social issues. We also saw more corporate leaders realize they do not need so-called "traditional" print and broadcast media to do this. In fact, they are realizing that they may already own the most effective communications channels. Elon Musk readily mixes corporate news and personal views on Twitter, while Lloyd Blankfein cites the ability to directly correct the record as a key reason he uses the platform. Ray Dalio is using LinkedIn every week to communicate with the public, and potential customers. And John Legere uses YouTube to communicate simultaneously with his fans, employees, customers, and investors.

President Trump's use of Twitter is the elephant in the room for many CEOs. But after living in fear of a Presidential tweet in 2017, in 2018 a small but growing cadre of CEOs demonstrated they were more willing to risk drawing anger in exchange for public authenticity.

While these demonstrations are in most cases inspired by the CEO's personal views of Trump's actions, or the views of their customers and employee base, perhaps unwittingly they are also being inspired—and instructed—by Trump's own disregard for traditional media.

These CEOs can now avail themselves of direct and measurable access to their key audiences in a way that did not exist 10 years ago. For this they must thank the wholesale implosion and reinvention of media which has taken place over the last 20 years. And what we will see in 2019 is far more criticism of CEOs who do not “own their own pipes” of communication or who misuse them for anodyne corporate purposes, and a higher bar for CEO authenticity given. In our view, somewhat counterintuitively, this actually lowers the stakes for CEO engagement on media. But let’s back up for a moment to explain why we expect this in the coming year.

The Media Landscape Has Changed

Two fundamental changes that have happened quite quickly to engender a secular shift in media.

First, trust centers in our society have decentralized and there are new hubs of credibility. Trust in institutions has eroded over many decades, declined at an accelerated pace following the 2008 financial crisis, and has accelerated further with the more recent rise in populism. Add to this the new digital tools that connect like-minded individuals, and we are squarely in the era of “micro-Cronkites” where trust is earned and distributed from the middle-out vs. the top down. According to Pew, our neighbors are our most trusted source of information. More than experts, such as the military or scientists, who are somewhat trusted, and far below them, more than media, business leaders, and elected officials. Of these latter three, media, lacking the economic power of corporate leaders and the policy power of elected officials, has received the most significant blow.

Second, individuals are consuming news in new ways, and as we work to prioritize a flurry of new information sources, new curation habits emerge. Digital feeds – whether a stream of email newsletters, or social posts, or search results – are customized, often algorithmically. These feeds have become the new front page. In the past, media consumers were told what was important by the printed front page and the top story on broadcast news. Today each consumer chooses their own journey to the news, and that changes the way agendas are set, and how news reaches people.

Companies and their leaders have been woefully behind in adjusting to the shift in power. Ninety-four percent of global executives say they get their news from e-mail newsletters — but beyond a handful of “celebrity” reporters and editors with credentials that pre-date the digital era, how many executives can name the editor who compiles that news? Ninety-six percent of journalists use Twitter weekly — how many CEOs follow their beat reporters on Twitter? A 2017 report from CEO.com showed that sixty percent of CEOs don’t have a single professional account or channel on any of the six major social media platforms.

Twenty years ago, the vast majority of us got up in the morning and read and watched the same newspapers and broadcasters. Today we wake and engage in much more personalized media consumption journeys. Some of us go right to Twitter; some to email; some to TV; some to Alexa; and some, still, to the paper on their doorstep. This decentralized landscape is unlikely to change and even the centralization of power in social media will not re-centralize the modes of news transmission.

A New Media Definition

The media landscape has changed so abruptly that we need to challenge some fundamental beliefs about how we approach it. And that starts with media’s definition. To free us from speaking with familiar, but antiquated terminology, we must consider a new definition of media, one that is channel-agnostic: one that allows media to be, quite simply, any channel that can transmit a message to an audience.

This dynamic is changing how CEO themselves think about building their reputation. Well-established media, with high standards of journalism and a track record of breaking stories, will still be important, but their impact is diminished amidst a wide variety of other sources. Corporate leaders need to complement earned media, or in some cases forgo it, to achieve the contemporary, authoritative reputation a top-tier feature once earned them. By taking an audience-centric approach, CEOs can implement more precise strategies, that are easier to measure, and can do so with more control of their message.

This does not mean that CEOs will move entirely to Twitter; rather, they require a communications plan for every stakeholder — down to the person. While this may initially sound quixotic, by studying the behaviors of important audience segments, we can identify common media habits across an audience and can construct custom strategies to reach each audience member directly.

For example, if you determine that your investors primarily rely on email, the best way to reach them is a targeted investor briefing e-mail. If a sub segment of your customers spend a majority of their time on Instagram, an organic/paid social media plan can be used to reach them consistently. If the data shows you that your policymaker audience in Washington, D.C. prefers getting their news via traditional media outlets, conduct online tests to determine if The Hill or the Washington Post reaches more of them directly.

CEOs must also be ready to adjust their communications based on audience feedback, because it ultimately increases effectiveness. Corporate leaders have quickly learned that social media talks back. Yes, this capability can be used by detractors to subvert a message (which incidentally scares many executives off of the platform), but it can also be used to improve how CEOs communicate. Digital media's discreet feedback loop should be devoured by organizations, to take both the quantitative data and qualitive insights back to their strategy planning groups.

Where to Go from Here

Traditional earned media will continue to be the bedrock of most external communications plans. But CEOs must accept that in the coming year, they may be compelled to talk to a YouTube influencer as much as to a CNBC anchor or Wall Street Journal reporter. They may find a paid media specialist counseling them alongside their traditional PRs. And they'll likely stop using the press release wires in favor of channels they own.

Owning your channel and owning your message with more intensity will come with new realities and new challenges. Without a traditional gatekeeper vouching for the newsworthiness of an announcement, CEOs will need to command attention on their own. In a crowded space, this is not easy. It will demand more transparency; both asking and answering the toughest questions; admitting fault and showing gratitude; being human and above all else, treating authenticity as the north star metric. A Twitter account with 1 million followers is vanity unless those followers trust the messenger.

Predictions

2019 will bring the convergence of many media disciplines, and a rise in strategies that don't fit neatly into a paid, earned, owned or social tactics. Here are some things we think will happen in 2019.

- Rise of the social CEO. There will be a significant rise of executives who join social networks and do a poor job. There will be a modest rise of executives who join social networks and do a great job.

- The decline of 'brand' channels. In a world where authenticity is currency, consumers will reduce their interaction with 'logos' - or brand channels – on social platforms and increase their interaction with leaders and employees.

- Owning pipes together. With Silicon Valley's most successful companies as an inspiration, CEOs will want to own not only their message, but also their data and distribution. It's hard to predict exactly how that will take shape, but it may look like a Players' Tribune for CEOs. In this scenario, we see corporate leaders establishing a shared platform, to attract more eyeballs than they would on their own, receive meaningful data on their audience, and distribute directly.

- Big brand communications will start to mimic DTC innovators. Functions will aim to mimic political campaigns, then newsrooms, followed by mimicking the direct-to-customer approach of companies like Casper, Away and Harry's. Successful companies will embrace the tight feedback loops, intense customer intimacy and digital nativity that have made these firms disruptively successful in their sectors.

- Investor relations will finally embrace a digital and data-driven approach. A new generation of digitally native IROs see the value in using the internet to communicate with investors. New tools – such as Robinhood and SoFi – are making socially-active millennials more conscious of their investments. And if those tactical carrots don't bring about change, the rise of activists – both social and investors – will push IROs to bring their function into the 21st century.

Profit With Purpose: Corporations Step Up Social Engagement

Betsy Cohen, President, Teneo Ventures and
Faten Alqaseer, Senior Vice President

Corporations have long focused on sustainability, not just to protect their reputations or respond to social activists, but for reasons of long-term profitability and operational efficiency. Decades ago, automakers realized that it was too costly not to develop alternatives to gas-guzzlers, and energy companies concluded it was too costly not to adopt voluntary carbon caps. What has changed acutely in recent years is the frequency of Corporate Social Responsibility (CSR) and sustainability issues escalating into crises fueled by social media and the 24-hour news cycle.

Further challenging the role of companies as change agents, the millennial workforce wants their employer's actions to match their own values. During this politically charged year, employees at Google, Microsoft, and McKinsey have tested the boundaries of their new power and influence. These emboldened highly-skilled workers are increasingly behaving like social activists, signing petitions and even threatening to quit over contracts with clients or policies that run counter to their moral standards. Amy Weaver, general counsel of Salesforce, notes this shift towards large-scale social responsibility: “In law school when they ask you, ‘What's the role of a corporation?’ [The answer] was “just ‘do no harm, give a little back to a little-league [baseball] team.’ There was no concept of companies stepping up the way they are today.”

The new CSR extends beyond philanthropic giving and employee volunteering. While Fortune 500 philanthropic giving is estimated to be over $20 billion, it is just a part of a company's CSR and sustainability effort, which has now broadened to include a social responsibility lens applied to all business-line decisions, including recruiting, employee benefits and supplier selection. It is not enough to respond to one-off social activist-driven issues. The new CSR is inextricably tied to a company's brand, its reputation, and its ability to maximize shareholder value. The new CSR must function at the enterprise-level, both CEO-led and considered in the context of overall business strategy and operations.

Larry Fink, CEO of BlackRock, in his January 2018 letter, declared that corporate response to societal issues can no longer be decoupled from the core business. It is no longer enough to deliver quarterly growth and profits. Companies must serve a social purpose or risk losing the full support of one of the world's biggest investors: "Without a sense of purpose, no company, either public or private, can achieve its full potential." Framing it more positively, we can conclude that companies that proactively manage the challenges related to their role in society are ultimately exposed to fewer long-term risks and are therefore more attractive to investors.

However, CEOs rarely consider social impact factors in their decision-making. They are inexperienced in marshalling company resources for a mandate to do good. Complicating the task further, the right data is not readily available to enable that kind of decision-making. But the alarm bells have been rung by employees, investors and regulators. Global companies and their boards will be held accountable for their impact at a level that they are generally not prepared to meet. An integrated, data-driven, enterprise-level approach to CSR and sustainability efforts will be required, and these once fuzzy concepts of purpose and impact must be accounted for with the same discipline exacted in key operating divisions. New technologies must be deployed to measure, monitor, and scale these efforts.

Companies have been slow to adopt real innovation and automation to address CSR-related efforts, but that is beginning to change. Early-stage tech companies are developing tools to solve for company-wide nonfinancial data collection and analysis, as well as related business-line pain points. Developing these tech solutions is not and should not be a core competency for large corporations, so the most successful will be the ones that partner with startups to inform their thinking and disrupt their current approach.

Reporting to Stakeholders

Larry Fink's directives on "profit with purpose," coupled with warnings from banker Jamie Dimon and investor Warren Buffett on short-termism, are echoed in recent securities legislation aimed at elevating the importance of a company's impact in society. While still short on specifics, the newly enacted Delaware Certification of Adoption of Transparency and Sustainability Standards Act ("the Act"), effective October 2018, messages that sustainability and social responsibility are no longer just window-dressing. Compliance with the new Act, which is voluntary, will signal that companies are addressing the matter at the CEO and board level, embracing a new level of accountability, and linking CSR and sustainability activity to a company's business strategy.

The first of its kind in the U.S., the Act lags regulation introduced in the European Union (EU) in 2014, which requires large public-interest entities to issue mandatory nonfinancial disclosures on sustainability and diversity. An alphabet soup of frameworks and standards – CDP, GRI, SASB, UN SDG, TCFD and many others – already provide guidance on what data companies should make public. Many global exchanges are now encouraging reporting on risks and impact, leading to increasing transparency. And detailed questions on impact and sustainability are frequently appearing in RFPs from potential customers. Some multinationals may opt to comply for reasons of operational efficiency (a single protocol across the enterprise is easier to maintain). But increasingly, companies will see the move as also benefiting their relationship with investors and other stakeholders.

Most companies are not prepared to meet this dramatic shift in expectations. Financial reporting, which corporations are built to handle today, can be accomplished piecemeal with data compiled from different parts of the business and reported quarterly. Nonfinancial data, on the other hand, cuts across business lines. It is scattered within human resources databases, customer relationship management platforms (CRMs), vendor management tools, and in many cases excel spreadsheets, anecdotes, and even photos. Nonfinancial data is also, by its nature, not restricted to a single unit like dollars, but a diverse set of metrics that is more challenging to compile and analyze.

Corporations can leverage new technology to implement a centralized, enterprise-wide approach to meet the avalanche of new reporting requirements. Built-for-purpose platforms interconnect siloes of an organization to capture the relevant data. They use API integration to automate data collection from multiple sources and enable real-time tracking, analysis and reporting. With new tools like Goodera, an enterprise platform that integrates a company's CSR and sustainability metrics, companies can automate reporting and make the shift from traditional, 100-page printed reports to digitized, real-time dashboards. Abhishek Humbad, CEO of Goodera, notes that "sustainability data from across the business is available in real-time to inform decision-makers, and agile content can be adapted to different stakeholder audiences."

Adapting to Millennials

The Pew Research Center found that millennials make up more than a third of American labor force participants (35 percent), making them the largest generation in the U.S. labor force. This generational shift, along with growing distrust in companies, has caused fundamental change in what employees want. In addition to a career and fair compensation, employees today are looking for a higher sense of purpose and an employer whose values reflect their own. A study conducted by EY and the Harvard Business Review found that 89 percent of executives surveyed said a strong sense of collective purpose drives employee satisfaction, which leads to better business results. Inspired employees, it turns out, do better work.

Another step to accommodate this new employee dynamic is promoting volunteering or pro-bono work as an outlet to serve and opportunities for team bonding. Goodera co-founder Richa Bajpai notes, "Companies are using volunteering platforms to replace costly and logistically challenging firm-wide volunteering days, boosting morale and improving community engagement."

Over 43 percent of millennials are multicultural, so the shift is not just generational; it's also about diversity and inclusion (D&I). Weight Watchers CEO Mindy Grossman explains that diversity is not a box to check off but is foundational to her overall business strategy: "There is clear qualitative and quantitative evidence that more diverse companies are going to have greater long-term sustainable success. When you think of who you want your partners to be, who you want to invest in, and what you want to do, don't you want to do that with people who want to have the greatest long-term success?"

"The question [for companies] is no longer 'Is diversity an issue? 'but is 'How do we fix the diversity issue?'" said Frida Polli, CEO of Pymetrics, which uses neuroscience and artificial intelligence (AI) to match candidates to jobs where they are most likely to succeed. A neuroscientist-turned-CEO, Polli proposed a 'diversity tech stack': a compilation of best-in-class early-stage tech solutions proven to improve diversity outcomes for global companies. Jopwell, one such startup in the diversity tech stack, uses technology to help companies connect with and recruit underrepresented ethnic minority candidates. Porter Braswell, CEO of Jopwell, notes that "clients like Peloton, Pinterest, and the PGA understand the importance of having a workforce that is reflective of the broader population and are committed to 'getting it right'." Jopwell also frequently advises its clients on broader operational imperatives, informing a larger diversity strategy, including marketing and consumer insights. Companies looking to lead on this front are not silo-ing their D&I efforts and, ironically, might not explicitly have a head of D&I. Instead, the efforts are often led by the CEO, who is actively infusing concepts of diversity into their ethos, brand, and corporate purpose.

Enhancing Brand

Consumers are also changing how they engage with brands and raising their expectations of these entities as change drivers. "People are looking to brands to deliver some kind of purpose, some sense of identity that reflects their ideal self," explains BlackRock CMO Frank Cooper. "The brands that understand that are extracting great value from it." To better engage an elusive customer base, fast-fashion retailer H&M is trying to become part of a 'more sustainable fashion future' through its Rewear Reuse Recycle campaign. It rewards customers who donate used garments with a discount off their next in-store purchase. Not only does the offer bring H&M customers back into the store with an intent to purchase, but a simple gesture lets them become part of the solution by donating a t-shirt to protect the planet.

Many companies are using technology to communicate their purpose and social impact to customers directly. Kevin Johnson, CEO of Starbucks, doubled down on an already aggressive digital customer strategy, aiming to build an authentic relationship with customers in new, interactive and scalable ways: “We have to be more agile as innovators.” Starbucks’ numerous digital touch points strengthen the company’s position with customers as a purpose-driven business. Johnson sees increasing digital engagement with the Starbucks customer as one of their brand’s unique and core assets.

Start-ups are using social media to help companies build these one-on-one relationships. Carlos Garcia founded HYP3R to help companies identify and engage individual customers in a geo-fenced location to capture all public social media activity at that venue (stores, stadiums, hotel properties). Garcia found that “one-on-one engagement is the best way to engage authentically with customers, earning trust and building community. Happy customers have a unique power to lead others your way.” Brands need to tap the innovation of start-ups to develop existing and customer relationships and to scale these interactions.

Mitigating Risks in Supply Chain

Most companies proactively managing their social and environmental risks focus on their own business operations. However, they often overlook their supply chains, where, arguably, most of the risks may be found, and unwittingly leave themselves exposed to financial, operational, and reputational risks related to their vendors and partners. In recent years, companies like Unilever and Nestlé have found some of their global vendors in breach of sustainable sourcing standards and suffered supply chain disruptions as a result. The UK-based CDP supports the disclosure of environmental impact in an effort to make environmental reporting and risk management a business norm. Data from over 6,000 companies that publicly disclosed through CDP has shown that, on average, greenhouse gas emissions in supply chains are 4x as high as in a company’s own operations.

Rod Robinson, CEO of ConnXus, a supplier diversity and risk management platform, started his company to solve for his own pain points as a Chief Procurement Officer. In that role, Robinson observed how a diverse supply chain benefited his then-employer: “Casting a wider net for suppliers often led to the discovery of new, innovative suppliers that came with higher-quality, better performance, and cost savings. This helped us build a more responsible and sustainable supply chain that delivered economic impact, helping to grow small businesses. It also enabled us to build loyalty among our suppliers that resulted in better financial results.” At the time, there were no integrated, automated tools to source, monitor, assess risk, and reliably report on the economic impact of a diverse supply chain, so he built a technology platform to do just that.

With suppliers and local communities becoming increasingly important corporate stakeholders, the supply chain is likely to attract more scrutiny. The new network of relationships resulting from a thoughtful supplier diversity strategy will help companies create a pattern of consistency demonstrating that it “walks its talk.” It will further build trust and brand authenticity and help establish a verifiable corporate track record. Building these new vendor networks is not just an effort to do good but will develop risk-mitigating assets that will strengthen a company’s reputation and increase the brand’s resilience longer term.

Trust and Technology

Trust takes years to build and minutes to destroy, so effectively managing a company’s reputation is a critical element of long-term financial success. BlackRock CMO Frank Cooper explains: “The days in which you can say one thing and do another are long gone. Because the lag between the time that people hear what you say and see what you do is virtually zero at this point. There is no lag. And you will get called out.” As expectations from a diverse set of stakeholders -- investors, employees, boards, consumers, suppliers, communities, and regulators – continue to shift, technology will offer CEOs a key to solving for these new corporate challenges. Partnerships with technology startups innovating around CSR and sustainability will be a critical piece of the puzzle, enabling companies to demonstrate transparency, consistency, and accountability. Companies will need to up their “purpose” game or risk losing control of the narrative around their brand. And CEOs will need to step up to lead in this new role.

Future-Proofing the Board: Corporate Culture on the Agenda

Megan Shattuck, President, Talent Advisory; Martha Carter, SMD, Head of Governance Advisory and Carol Bowie, Senior Advisor

With the spotlight on boards continuing to intensify, the role of individual directors and the effectiveness of the board as a high-functioning team have taken on even greater importance. While board refreshment, c-suite succession planning, diversity and inclusion, executive compensation and cyber security are not new board matters, they have taken on a heightened sense of urgency. This is so because of a climate where activist investors continue to turn up the heat, the speed of business transformation is relentless, unpredictability and volatility within markets is now the norm. Importantly cultural risk is now being covered in a new manner. Media attention, employee experiences, regulatory intervention, investor perspectives, and boardroom action have all evolved rapidly in highlighting the toxic effects of a culture gone awry.

In its 2017 Annual Stewardship Report, State Street Global Advisors, one of the world's largest asset managers, noted its revised stewardship program with a focus on environmental, social and governance (ESG) practices on the heels of its "Fearless Girl" gender diversity campaign, which called on more than 700 companies in Australia, the UK and the U.S. with no women on their boards to add at least one woman. State Street noted that within a year, more than 20 percent of the companies responded to their call by adding a woman to their boards.

As activists are savvy at building a case and positioning themselves as a force for good, boards need to be just as sharp at running the right kind of analysis and effectively messaging their decisions - proactively positioning company strategy, operational moves and any leadership, governance and board changes at a time when activist capital continues to be forcefully directed. There is no room for passivity. The key is ensuring the right team is around the table to consider risks and opportunities.

Corporate culture is thus receiving increased media, stakeholder and regulatory attention as a matter of risk, governance and shareholder value. Words like values, behaviors and attitudes are increasingly focused on and used by stakeholders with the ability to shake a business model or alter the reputation of a company. Reputation and trust are at the center of the business conversation. In such an environment, the role of the board is central in shaping corporate culture and in addressing it as a risk factor to the organization.

There is no better 2018 example of large shareholders holding boards accountable than Elaine Wynn's successful proxy contest at Wynn Resorts. Elaine Wynn, the company's largest shareholder, co-founder, and ex-wife of former CEO Steve Wynn, launched a proxy contest to rid the board of long-time directors that she believed took a blind eye to Steve Wynn's sexual misconduct during his tenure as CEO. Steve Wynn stepped down from his leadership role in February 2018, but Elaine Wynn undertook a proxy contest to remove one of the board members in a symbolic gesture to restore integrity to the company and mitigate risks to its casino license in Massachusetts. By July, two legacy directors had stepped down and a new vice-chairman was added at the suggestion of Elaine Wynn.

Many companies are making decisions that weigh social values and behavior as important to shareholder returns.

In March 2018, Citi CEO Michael Corbat announced Citi was instituting a new U.S. Commercial Firearms Policy in the wake of the Parkland, Fla., school massacre. The announcement noted the policy was not meant to be centered on an ideological mission to rid the world of firearms. Citi was criticized by some for wading into social policy and lauded by others for being willing to take a stance in the divisive nationwide gun control debate.

Starbucks closed almost all of its stores for several hours in May 2018, to raise awareness of unconscious bias, in an effort to counter potential criticism that could drive away customers.

Television network ABC cancelled the hit television show “Roseanne” after the show's star, Roseanne Barr, posted a vile tweet. In June 2018, the Business

Roundtable issued a statement urging the Trump Administration “to end immediately the policy of separating accompanied minors from their parents. This practice is cruel and contrary to American values.”

Against this backdrop of cultural concerns, Sen. Elizabeth Warren highlighted a proposed new bill in an op-ed the Massachusetts Democrat published in The Wall Street Journal on August 14, 2018. Warren’s “Accountable Capitalism Act” would require companies with more than $1 billion in annual revenue to acquire a federal charter that would force corporate directors to consider the interests of “all major corporate stakeholders — not only shareholders.” Warren is seeking to empower employees, customers and communities in corporate actions. It’s unlikely the bill will become law (for now) but it indicates the level of dialogue happening in political arenas over corporate responsibility to all stakeholders.

#MeToo Effects

The focus on corporate culture and stakeholder responsibility has been elevated in a very specific way, with the #MeToo movement. While the #MeToo movement has moved through politics, media, and business over the past year, the movement is not new. As leadership teams and boards work to understand and manage revelations from the #MeToo movement, the conversation around persistent pay and leadership gender gaps has been amplified. These gaps are also not new.

In September 2018, CBS Corporation announced that Leslie Roy Moonves would depart as Chairman, President and Chief Executive Officer and six new independent directors were elected to the Board. As part of the transition, it was announced that Moonves and CBS will donate $20 million to one or more organizations that support the #MeToo movement and equality for women in the workplace.

Patterns of behavior that have long been ignored or hidden are being discussed in a bold new way. Yet there remain a lot of questions on how best to create a culture that not only prevents bad behavior but paves the way for advancement for all. The current climate has led to a much bolder conversation – including heightened expectations for action – about the responsibility of the board as it relates to culture.

Culture in the Boardroom

Culture is not coming to the boardroom. It is IN the boardroom - across values and behaviors – and should be viewed through the lens of risk management. Business leaders tell us that conduct of senior management teams is an important driver of reputation. If boards uncover behavior which could derail culture, it should be captured as part of risk assessment activity.

A lot has been written recently about the ability of the board to have a point of view when culture is putting the company at risk. Does the board know how to lead and work through necessary conversations during the spotlight of the media and widespread scrutiny? Is there a risk for overreacting? Is there a way to ensure that questions about the CEO’s behavior are handled appropriately? Are robust discussions on strategy, risk management and culture able to occur?

Equally as important is the culture of the board. What is the culture of the board to address these kinds of issues? Does the board’s culture allow for timely escalation of risk issues? Are candid conversations taking place within the committees and full board? How is the board engaging with management?

In 2018, Gartner found that 87 percent of directors report having a good understanding of their organization’s “tone at the top,” but only 35 percent have a good understanding of what the culture looks like at the mid-level, and just 18 percent at the lower levels of the organization.

According to the EY Center for Board Matters, there are continued challenges to organizational integrity that remain top of mind for leadership in organizations. In EY’s 15th “Global Fraud Survey,” 36 percent of respondents indicated that fraud and corruption pose the greatest risks to their business. While other risks - macroeconomic, cyber, and regulatory - still pose challenges, the importance of a culture of integrity is clear.

Effects of Culture Risk

When governance, culture, ethics, compliance, and monitoring fail an organization or in markets, it can have disastrous effects not just on the company, but on the sector and region. In February 2018, investors in Dubai private equity firm Abraaj asked for an investigation into the alleged misuse of hundreds of millions of dollars in its $1 billion healthcare fund. A Financial Times July 30, 2018 article noted that Abraaj's difficulties have put the region's corporate governance in the spotlight. For years, experts in the region had warned about poor corporate governance standards, which could impact investment.

Global standards in governance help markets and companies keep pace with the rest of the world, or they may suffer a decrease in capital flows if investors view the governance risks to be greater than the rewards of investing in lagging markets. Active oversight of organizational culture is a key component to preventing a governance failure.

To be most effective, a board must support a business's strategic imperatives. Proactive evaluation of board effectiveness on an ongoing basis should no longer be described as aspirational or "best-in -lass." It is a way of working to preempt threats across a multitude of areas (cyber security, c-suite succession planning, transparency, scrutiny of CEO compensation) and to best manage threats when they land at your door.

Future-proofing the board is not a new recommendation. It is this climate that has elevated it in a new way. It has gone from an aspirational "best practice" to an ignore at your own peril.

When future proofing is conducted with close consideration of corporate governance trends and the identification of potential reputational threats, the board will be in a stronger position to preempt threats, such as activists, and create long-term value.

A strategic board functions well as a team, adds value, and communicates effectively. It includes a diversity of views and experience aligned to the Company's business strategy. This creates a constructive environment where future planning is fully activated, and the board is challenged on critical topics – business issues, culture, innovation, disruptors, and CEO and board succession planning.

Managing Culture

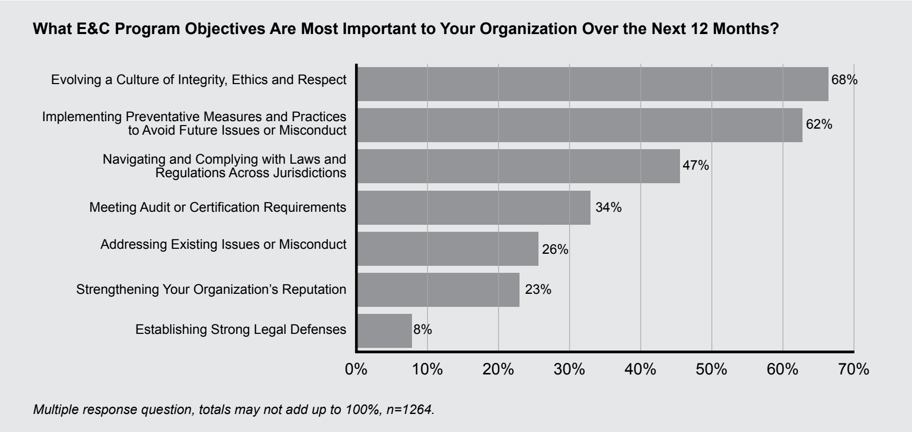
Boards must be able to monitor and oversee a set of qualitative data and subjective criteria that defines culture in an organization, along with the way in which those factors combine to create behavior – from performance reviews and incentive structures to employee training and consequences for inappropriate actions. Because of this, ethics and compliance training in organizations and tools to measure compliance in a company have become more prevalent.

Yet many directors today are asking how they can go beyond risk metrics, company policies and procedures, checks and balances, reporting methods, employee surveys, data, compliance and regular presentations to the board in a manner that respects the governance structure. Many view it as one of their hardest tasks. How can – and should - the board dig deeper? Should board members talk to employees outside of the standard senior management presentation to the board? What happens when there are policies in place, but employees do not feel “safe” in reporting problems? What happens when a violation of a non-fraternization policy that has been ignored for many years is suddenly activated? When should the board be notified of an issue?

According to NAVEX Global’s 2018 Ethics & Compliance Training Benchmark Report, there has been a re-evaluation of ethics and compliance programs, particularly regarding training.

In NAVEX Global’s report, they found that 73 percent of organizations are now training their board of directors on compliance. This is well above the past two annual surveys, which were below 60 percent. The 2018 report highlights a growing trend to improve executive-level training and a recognition that current training efforts have simply not done enough to create a norm around what constitutes acceptable workplace behavior.

In its survey, 68 percent of respondents indicated that evolving to a culture of integrity, ethics, and respect was one of the most important Ethics and Compliance program objectives for the organization.



According to the report, ethics awareness is also reflected in hotline reporting trends: there was an uptick in the rate of harassment-related reports made in the fourth quarter of 2017, coincident with the rise of the #MeToo movement.

Global View of a Board's Role

Over the coming years, global capital inflows are likely to tend towards boards that demonstrate effective oversight of their organization's culture. Otherwise, a risk premium would need to be attached to investments where questionable culture could create risks and erode shareholder value.

In its 2016 report, "Corporate Culture and The Role of Boards: Report of Observations," the UK's Financial Reporting Council (FRC) undertook a project to better understand how boards are steering corporate behavior that will in turn deliver sustainable good performance. Key observations listed as part of the FRC's findings include:

- Recognize the value of culture; don't wait for a crisis to focus on it
- Demonstrate leadership; boards have a responsibility to act
- Be open and accountable; it is part of good governance
- Embed and integrate; corporate risk functions should be empowered
- Assess, measure, and engage; boards should evaluate and have reporting on culture

• Align values and incentives; rewards systems should support values

• Exercise stewardship; engage with investors about culture

Sir Winfried Bischoff, FRC Chairman, summarized the project in indicating that boards are taking action to shape culture, which will drive capital allocation, improve productivity, and deliver sustainable value.

Benefits of Alignment
There is growing evidence that boards understand and are working toward embedding culture oversight into their role overseeing sustainable performance.

Alignment of director compensation with culture (see dialogue box) is an effective way to ensure that incentivizes the board to properly oversee culture, guard against scandals and risks, and promote diversity and inclusiveness as part of its long-term strategic and economic objectives.

Aligning Director Compensation with Culture

Board compensation is another part of the cultural fabric that should not be overlooked. While pay is not generally considered a significant motivator for Board service, it incentivizes behaviors just like any compensation structure. Controversy around director pay lags far behind media and investor criticism of executive compensation, but lawsuits claiming self-dealing and corporate waste by directors approving allegedly excessive pay increases for themselves have been on the rise. And a landmark court case and evolving proxy advisor policy on director pay may instigate even more scrutiny that could fuel activists' firepower.

A Governance View of Board Pay
Best practice guidance from organizations such as the NACD and various governance groups rests on the principle that director pay reflects a board's approach to oversight of executive compensation, as well as its overall philosophy regarding corporate governance and directors' commitment to putting shareholder and stakeholder interests ahead of their own.

The general rule of thumb is to ensure that Board pay is meaningful enough to engage directors, and pay fairly for their time and expertise, while avoiding levels and elements such as perquisites, pensions, and performance-based pay that could compromise their objectivity in monitoring – and challenging – management or that could serve to entrench them. Most U.S. companies now deliver a substantial portion of Board pay in the form of equity awards that explicitly align directors' interests with shareholders. And the increasing importance of specific Board roles, such as lead director, separate Board chair, and key committee chairs, has led to more compensation for them. At the same time, increased transparency, as more information about director compensation has been disclosed in proxy statements (including the actual amounts paid to each board member) has given shareholders a wider window into board pay practices.

ISS Increases Scrutiny

In the past, Board pay generally fell under the radar of proxy advisors in the absence of conspicuously egregious numbers that could raise questions about directors' independence. But last year Institutional Shareholder Services (ISS) disclosed a new policy that will have an impact in 2019.

Under its new approach, ISS said it will make a more systematic evaluation of director compensation and, beginning in 2019, recommend that its institutional shareholder clients vote against directors who sit on the Board committee responsible for setting it when the evaluation indicates a recurring pattern of "excessive pay… without a compelling rationale."

Delaware Court Lowers the Lawsuit Bar

In addition, a Delaware Supreme Court decision (Investors Bancorp, Inc. Stockholder Litigation) in late 2017 also raises new risks. In this case, the higher court reversed a Delaware Chancery Court decision that the company's directors were shielded by the business judgment rule when they granted themselves equity awards that collectively totaled more than $21 million in value.

Board Pay in a New Light

The factors of the Investors Bancorp case are unusual, but the Delaware high court's ruling could put more arrows in the quiver of activist shareholders. And while it also remains to be seen how ISS will determine "excessive" Board compensation, the implications of both developments should lead more companies to seek shareholder approval of more specific director pay caps and further limit discretion, as well as any exceptional pay without convincing rationale.

Some companies are also re-examining their director compensation programs in light of other forces influencing board culture. The growing focus on regular board refreshment, to ensure an appropriate mix of skills and experience as conditions and company strategy evolve, has led some companies to reduce or eliminate equity grant vesting periods that could disincentivize a director from stepping down early. As board culture evolves, so should its compensation practices to align governance, culture, strategy, and values in a meaningful way.

Checklist for Next Steps

As shown through many examples, the lack of culture and ethics can bring down an organization and its leadership. Measuring, managing, incentivizing, and reporting on culture needs to be part of the agenda at board meetings. Culture will be factored into ongoing benchmarking of overall risk management along with the assessment of business strategy.

A checklist for assessing and acting on culture risks is included below.

- Be proactive and strategic: assess vulnerabilities before threats happen and build assessments and reviews into the wider strategic business planning process.
- Understand and communicate: evaluate the landscape of investors' perspectives, activist targeting, and regulators' demands, and use communication tools to their fullest effect.
- Assess board culture: ensure the board is set up for candid conversations.

- Go beyond the obvious: explore additional ways to take the pulse of the company beyond senior management.
- Engage and disclose: Undertake a multi-year investor engagement plan with clear metrics and goals around culture.
- Connect the dots: ensure alignment with incentive structures match values.
- Review and Refresh: treat the benchmarking and assessment as an ongoing process for reevaluation.

Board members have a responsibility to assess behavior and culture. The board will be expected to have a strong framework in place to address culture, which when done successfully, will have a positive impact on long-term value.

Security Convergence: Addressing Evolving Cyber and Physical Security Threats

Jonathan Wackrow, Managing Director

CEOs and those specifically charged with protecting an organization's digital and physical security possess varying degrees of understanding for the interdependence of their roles. In the past, this lack of understanding reflected each domain's modest impact on the enterprise's overall risk structure. However, today's dynamically-evolving threats have transcended both physical and digital realms. Simultaneously, interconnectivity of technology, the pervasive 24/7 news cycle and social media amplify an attack's impact on business operations, reputation, shareholder value and bottom line. Thus, the organization's fate hinges on coordination and integration of cyber security and physical security functions. It necessitates an increasingly interdisciplinary and collaborative role for the CEO. It also requires an enterprise-wide Chief Security Officer (CSO) to assimilate the functions of physical security and information technology security.

Not so long ago, the remits of physical security and information technology security were relatively narrow and had distinct focuses. Physical security was charged with protecting a company's locations, drawing upon access control and screening measures, uniformed guard services and video surveillance. Protecting information technology shared a similar level of specificity, securing localized networks with a limited number of interconnected devices. Individuals with law enforcement backgrounds manned corporate security departments. In contrast, a company's information and data assets remained protected by information technology departments.

Today, however, both roles must cope with intersecting risks across global enterprise platforms. Hostile actors will exploit weaknesses in either the physical or technological security structures to achieve their goals. Innovative technology also enhances their ability to target enterprises and mobilize support. The proliferation of internet protocol connected devices, as well as increasing sophistication in social engineering and malware attacks are occurring within a climate of mounting international cyber-tensions. Bad actors are finding multiple means and opportunities to access sensitive, proprietary information. The rising likelihood and magnitude of physical incidents increases the need for interdependence of physical security, IT and the C-suite functions.

CEOs need to fully understand the threat landscape before introducing new remedial strategies and synergies than can exist between physical security and technology. Each discipline can adopt one another's mitigation tools to develop more comprehensive prevention, identification and response capabilities, commensurate with the emerging global landscape's growing complexity.

Technology and Physical Interplay

Specifically, physical security practitioners increasingly depend on technology to detect and respond to dynamic crisis events. Due to the interconnectivity of IP security-based systems such as sensors, cameras, and electronic locking systems, physical security can now leverage big data analytics such as artificial intelligence and machine learning to identify and respond to dynamic crises. For instance, gunshot detection technology and automatic connectivity to first responders via panic buttons can reduce the response time to hostile intruder or active shooter incidents, drastically mitigating damage, casualties and business impact.

Similarly, video surveillance analytics, combined with millimeter-wave imaging sensors, can identify a hostile actor with a weapon within a building. Autonomous systems can close and lock interior doors, make notifications, initiate emergency action plans and contain incidents until first responders arrive, all with limited or no human intervention or oversight. Thus, technology has already begun to enhance organizations' ability to quickly and accurately identify and contain the early stages of an attack, maximizing the effectiveness of physical security protocols and overall incident management.

Similarly, information technology security depends on strong enterprise security protocols. Data centers and servers require physical access controls and active surveillance to protect sensitive information, hardware and software from intrusion or harm. In this way, cybersecurity programs require more than just a secure network infrastructure. In addition to network hardening, server patching, and implementation of authentication protocols, continuous deployment and refinement of operational security protocols – including access control provisions for employees, visitors and vendors – represent a pragmatic approach to "brick-and-mortar" cybersecurity.

The New Model

The concept of security convergence offers a new model for understanding and mitigating the threat environment. Traditionally, siloed security operations have failed to recognize the patterns of emerging threats and the totality of the threat environment, resulting in organizational blind spots and breaches. However, treating physical security and cybersecurity as unified and interconnected – and appointing a centralized chief security officer (CSO) to oversee these disciplines – builds a culture of security awareness and accountability, which treats security as an organization's shared fate.

Insider threat mitigation exemplifies physical and cyber security's interdependency and complementary capabilities. Malicious insiders or trust betrayers seek to disrupt business operations, exfiltrate sensitive data or otherwise harm organizations, targeting physical and digital assets and vulnerabilities. Thus, insider threat planning requires corporate security managers to identify and understand the entirety of company's physical and IT footprint; this includes facilities, systems, technology, employee base and third-party relationships, as well as potential vulnerabilities, such as unsecured access points to networks or data centers and system credentialing and authentication specifications. While companies often overlook proprietary software, customer data schematics, and internal manufacturing processes in taking inventory of their critical assets, these all reflect competitive, sensitive information that should be counted among any organization's "crown jewels." Once the company has defined its critical assets, security managers must then identify anomalies in either physical or network-based activity and utilize both manual and technological means to prevent, manage and escalate threats for mitigation and formal disposition.

For CEOs and Boards to fully understand and execute upon this new, interdisciplinary model for enterprise security risk management, they must designate a centralized, global CSO and fund and empower the CSO to develop pragmatic, innovative security solutions that confer sustainable competitive advantages. In today's risk climate, CSOs' primary responsibilities include development and implementation of strategies and processes for understanding the nature and probability of catastrophic enterprise security risk events and mitigating the organization's specific vulnerabilities.

To communicate this strategy compellingly to the highest levels of management and the Board of Directors, CSOs must not only demonstrate mitigation planning and methodology, but also create distinct value-drivers and competitive differentiators across the entire enterprise.

In order to drive organizational innovation, an integrated security model must also manage risks spanning multidisciplinary areas beyond cyber and physical security. This approach provides even more pathways and solutions by which security professionals across the enterprise identify and respond to emerging threats and manage a complex risk environment.

Key tactical focus areas within the cyber and information security realm include data protection, vulnerability and patch management, intrusion testing, data breach and recovery, network segmentation, economic espionage, and incident response. Also benefiting is recovery planning, supported by adequate access and perimeter controls and installation of video surveillance and visitor management systems to physically secure hardware and software. Similarly, physical security teams can leverage cyber security technology and expertise to help automate previously "brick-and-mortar" functions.

Beyond these domains, however, building an organization's capabilities in third party vendor diligence, business and geopolitical intelligence ensures that findings from commercial and counterparty diligence and geopolitical risk assessments inform cyber and physical security measures by identifying threats and vulnerabilities.

Robust governance, risk and compliance oversight and legal and regulatory compliance also support and augment cyber and physical security. Through board risk oversight, audit metrics and reporting, compliance with insurance mandates, industry regulation and legislation, organizations cultivate an infrastructure conducive to more universal situational awareness and “tone-at-the-top” to drive ongoing innovation. For instance, internal and external litigation support and investigation capabilities, liaison with regulators, and pathways for reporting and remediating fraud, corruption and other whistleblower claims help organizations to identify and intermediate potential issues to comply with and leverage industry or regulatory standards. Thus, identifying areas of convergence and harmonization across multiple risk management disciplines ensures holistic protection of an organization’s employees, critical data, shareholder and brand equity.

While integrating physical and cyber security operations under a single steward requires both cultural and technological changes, unified security solutions ultimately offer more comprehensive security protection. Convergence facilitates regulatory compliance and improved coordination and response to emergencies or security threats. Further, IP’s emergence as the standard for corporate networking makes integration more achievable, as IP-capable cameras, card readers and access controllers can connect with company information systems.

The convergence methodology also brings the most comprehensive mitigation techniques to address current and emerging threats organizations face vis-a-vis networked devices, commonly referred to as the Internet of Things (IoT). The rapid rise in machine-to-machine communications built on cloud computing and networks of data-gathering sensors has increased legacy network systems’ risk exposures, with each connection node representing a new potential intrusion point and threat vector. Near-term, the IoT landscape is expected to grow to over 20 billion individual devices, connecting specific business applications into a network of personal devices that cybercriminals can use to access critical data. Further compounding the risk is the lack of standardization around securing these devices’ hardware and software. A single device in the hands of a hostile actor could compromise an entire network.

However, companies that shift away from a decentralized security strategy to a structured convergence paradigm will be equipped to monitor the threat landscape, secure physical and digital assets accordingly, and launch cross-functional responses to better defend against the known and unknown threats to IoT devices. Thus, physical and cyber security convergence will continue to serve as a solution pathway to complex enterprise security management, especially as the boundaries between physical security and networked systems continue to blur.

Integration Governance

To keep pace with future threat landscape, CEOs must realize that integration between physical and cyber security is critical to safeguarding the company's overall operations and reputation. Skeptics may claim that full integration around physical and logical security will never have a place in the corporate business model, instead predicting that the domains will interface closely on crossover projects. Accepting this view, however, neglects the fact that the convergence of these two security domains has already occurred, and the future threat landscape necessitates integration at an institutional level. The separation and variance between the roles and responsibilities of the physical and digital security stewards have all but eroded.

For an organization to fully accept and adopt the convergence model, CEOs face the challenge of overcoming long standing institutional entitlements. Cyber security managers may make the point that they are best positioned to configure enterprise technology better, and that physical security is only concerned with guards, gates and guns. In turn, physical security managers may cite cyber-based technologists' lack of foundational knowledge of the physical domain or harbor a fear of losing control of long-held operations. CEOs must look beyond the noise, empowering and focusing both domains to integrate and achieve corporate strategic goals.

Similarly, the company's Board or governance structure must recognize CSOs' post-convergence role as an integral stakeholder within the company. CEOs must reinforce the shift in organizational ethos from that of the overlooked, under-resourced, and underutilized CSO to prioritization of understanding and communication how to better leverage this critical resource.

To succeed in this new organizational structure and threat environment, CSOs will require organizational empowerment, autonomy and access to information that helps them identify risks to the safety of personnel or the security of the network data. As the numbers of network-connected systems and, in turn, threat vectors, increase, CSOs will need the authority to engage with individuals at all levels of the organization, as well as the ability to find subject matter expertise outside the organization. By analyzing information and coordinating activities with both internal and external stakeholders, a CSO can better prepare his/her company for the possibility of a security incident.

CSOs also grapple with the need to demonstrate repeatedly the ROI of increased security costs, regardless of the domain. Resource and budgetary constraints can limit a CSO's ability to effectively hire trained and qualified staff or invest in new tools and technology. Proper governance and oversight of the security risk management function by the Board will ensure that scaling resources in an increasingly complex business environment does not compromise managing security risk.

Armed with organizational buy-in and budget, post-convergence CSOs must build strategy to address near- and over-the-horizon threats. Traditionally, security managers have prioritized current risks and often are ill prepared to manage long-term, developing threats. Such myopia may limit a CSO's ability to understand future resource requirements, leading to potential failure in executing the organization's overall security strategy. Thus, strategic CSOs must adopt a longer-term view, anticipating emerging physical and technological threats and anticipating the resources required to implement proactive measures to decrease future security incidents' likelihood and impact.

The Bottom Line

A pragmatic security strategy in today's evolving threat environment must include a holistic approach towards integrating physical and cyber security, ultimately giving rise to a more comprehensive corporate security posture. Further, implementing a new governance structure that supports corporate security risk management will also bolster and accelerate deployment of flexible and saleable mitigation techniques across previously siloed domains. Collectively, these changes in security and governance will prepare an organization to address a multitude of emerging and future threats.

CEOs who empower their CSOs to play a more strategic part in overall enterprise risk management plans and leverage their experience, knowledge, and relationships will fully utilize the convergence framework to create operational efficiencies while reducing organizational risk exposures. Through a more integrated security and governance structure, CEOs will more holistically understand their enterprises' critical assets, in turn enabling them to more effectively protect the people, processes and technology that comprise those assets. Thus, recognizing vulnerabilities and solutions arising from geographical instability, as well as new physical, cyber and information security threats, under a single point of governance enables organizations to strengthen their enterprise security postures while also maximizing overall business efficiency.

Disruption in Global Sports

Neil Daugherty, Senior Managing Director

Sports, as one of the world's most enduring and captivating forms of live entertainment, is being disrupted at uncommon speed and on an unprecedented scale globally. The result is that the commercial development of sports is changing in ways and at a speed hitherto unknown. For example, football (soccer to U.S. readers), like other entertainment, is being sliced, diced and shaped as easily digestible and snackable content – a trend reinforced in 2018 by the ways we watched the FIFA World Cup™ in Russia, the world's most watched sporting event trumpeted by FIFA as the most popular edition yet. At stake is a battle for eyeballs, engagement and revenues in a world of converged entertainment.

Amazon, Facebook and Netflix are now potential competitors, as well as distribution partners, for sports rights holders such as FIFA, UEFA, the Premier League, La Liga in football alone, Formula 1 and global and national governing bodies in other sports.

BT Sports has chosen to simultaneously stream live and free-to-air on YouTube the past two UEFA Champions League finals, the jewel in the crown of a rights package for which the company paid £1.2bn ($1.5bn over three years as recently as 2017). What began as a platform for growing TV subscribers and revenues may now be seen as much as a defensive play to stem the bleeding of broadband subscribers to rivals. It remains to be seen whether partnering with Google/YouTube to screen sports rights may make commercial sense in the short term, but in the long term has allowed the barbarians inside the gates; if the 'FANG' companies go hard after sports, it would be expected that the natural progress would be for them to build better technology platforms and user experiences, and reach more fans directly, without the need for broadcast intermediaries.

A month before the Russia World Cup, Amazon signed a deal to livestream 20 Premier League matches per season for its subscribers for three seasons from 2019, breaking the broadcasting duopoly for UK domestic Premier League rights of BT Sports and Sky. More worryingly for the pay TV companies, immediately after Russia 2018, UK media regulator Ofcom reported that for the first time, the number of UK households subscribing to ‘Over The Top’ entertainment services such as Netflix, Amazon Prime and Now TV (15.4m) surpassed those subscribing to traditional satellite or cable subscriptions from BT, Sky, Virgin (part of Liberty Global) and others (15.1m). Forty percent of UK households now go ‘Over The Top’ - whereby consumers pay for basic broadband connectivity access, and then pick and choose which entertainment options to ‘top up’ with; more of an à la carte menu than the all-you-can-eat buffet which has sustained pay TV subscriber numbers and profits until now, by dangling the carrot of live sport as one of the tastiest items on the menu. The very real danger for traditional media companies is that they are left with a highly-regulated, high cap-ex, low margin, commoditized utility ‘pipes and wires’ business, which is exploited by the entertainment rights holders to reach consumers directly with higher revenue, higher margin services. And these are the consumers that broadcasters can get to pay at all – as the Financial Times reports, 58 percent of under 30s admit to illegally streaming matches. And it is very hard to compete with free.

Surprising new niche players also threaten to disrupt the field of play: in the past few months BT Sports has lost the overseas rights for Italy’s Serie A, and Sky Sports for the first time has lost the rights for Spain’s La Liga, to the previously unheralded Eleven Sports, which will chiefly seek to sell these to consumers in online packages. The collapse of Traffic Group, traditionally the major power player in sports marketing in the Americas, following the indictment of its leadership as part of the Department of Justice’s RICO case against FIFA officials, also clears the field for new players for the first time in generations.

Given that live sports is also the peak of unscripted drama, there is also a very real fear that Netflix, the biggest funder of independent drama production, will soon wake up to the possibilities of sports rights. But merely screening the matches, which can be viewed elsewhere for free, may not be enough – the winners in this battle will surely be the ones who can provide the exclusive behind-the-scenes access to the drama on the pitch (field).

Merger of Mega Brands

Within one week of launching its own YouTube channel this year, Manchester United had acquired 800,000 subscribers on the platform, notably choosing to benchmark this achievement not against other football (soccer) clubs, but the Dallas Cowboys NFL franchise. Many global sporting clubs and brands may choose to 'go it alone' rather than rely on distribution partners to reach their fans – not all will have the name recognition and brand equity to survive at the top table, but they all recognize the way the wind is blowing. Against this backdrop, Spain's La Liga has signed a 15-year deal with Relevant – the company which organizes the International Champions Cup and is backed by U.S. billionaire and Miami Dolphins owner, Stephen Ross, to grow the value of its commercial partnerships in the U.S.

The signing of a 33-year-old Cristiano Ronaldo[1] on a four-year contract by Juventus of Turin for €100m ($114m) after the World Cup not only added 40 percent share upon initial reports of the impending transfer, but at the time of writing, the club has been reported to sell over $60m worth of Ronaldo replica jerseys. At a conservative estimate (and leaving aside the not insignificant matter of player wages and factoring a 10 percent profit on shirt sales) the transfer could be said to have paid for itself four times over, before a ball has even been kicked. It was in effect, a merger of global super brands more so than a player transfer.

For a long time, Europe's elite sides have carped about having to share revenues on an equitable basis with smaller clubs – the argument being that the big sides pull in the paying punters and the eyeballs. But perhaps this now seems more likely than ever to happen, either in the form of a more streamlined breakaway super-league to replace the current Champions League format (which UEFA would need to sanction and control) or the idea of a quadrennial World Cup of Clubs, to replace the current FIFA World Club Cup. Expect a battle for the soul – and commercial control – of football between and among regulators (FIFA, UEFA, CONMENBOL) and the country FAs and clubs themselves. The hope is that fans will get a say, other than voting with their feet, and eyeballs, after the fact.

[1] This article was published prior to the recent allegations made against Cristiano Ronaldo.

Changing Demographics

Who travels to a World Cup? Currently, South Americans comprise the largest body of fans who travel consistently to tournaments – as supported both anecdotally (Peruvian and Colombian fans being among the most seen and heard in Russia) and by FIFA's own pre-tournament ticket sales figures. The Olympics follow a similar pattern. But travelling to a World Cup or Olympics is a significant undertaking in terms of time and money. Even staying for the two-week duration of the knock-out stages, and securing tickets, can cost several thousands of dollars, so we are seeing the rise of the global, middle and upper class travelling sports fan. As developing nations grow their own middle classes, we can expect not only more South Americans, but also Chinese. The 40,000 Chinese fans who travelled to the 2018 World Cup in Russia will be as grains of sand in a desert compared to those who travel to the World Cup in Qatar in 2022.

If China's overseas investment in football assets has latterly been schizophrenic, its longer-term ambition to host the 2030 World Cup (and win the cup by 2050) is stupefying in the scale of its investment in grass roots team sports, hitherto prohibited by the Chinese Communist Party's strictures on group and association meetings. And keep an eye on India - despite a recent tapering off of attendance figures, until recently in cricket-mad India, ISL clubs in Kerala and Kolkata would regularly attract crowds of 60,000 plus. Both these markets, like an increasingly Hispanic North America, as the 2026 World Cup hosts, have the weight of demography on their side (there is a very good reason that all the major European club teams signed up to the International Champions Cup in the U.S. this summer, before FIFA's decision to award the 2026 tournament to the United bid by Canada, Mexico and USA).

Take a look also at FIFA's second and third tier sponsors for Russia 2018, and names such as Vivo, Mengnui, Hisense and Yadea replaced more familiar names to Western consumers such as Sony, Johnson & Johnson, and BP Castrol. The Wanda conglomerate (which also owns a stake in Club Atlético de Madrid) has signed on as a FIFA partner – the highest level of sponsorship – alongside Coca-Cola, Visa, Adidas and Russia's Gazprom, for the next four World Cups.

Another trend is the fast growth of women's and girls' football (soccer). It is one of the fastest growing participation sports in North America, due in no small part to the success of the FIFA Women's World Cup™ in Canada in 2015. The tournament averaged crowds of over 26,000, with 54,027 people attending the hosts' quarter-final match against England's Lionesses. The BBC reported a 500 percent increase in TV viewership between the 2011 and 2015 editions of the Women's World Cup. UEFA reported a 7.5 percent increase in registered women's players in 2017 alone.

Whichever way you look at it, interest in football has not peaked. Qatar, in 2022, will also provide kick-off times in primetime TV viewing slots for 3bn viewers – as befitting the first Middle Eastern World Cup, in the middle of the world.

Innovations on the Field and in the Stands

There is a compelling argument to be made that the FIFA World Cup, much like the Olympics, is one of the few exceptions to the rule of the decline of 'appointment viewing.' Consultancy Future Sports estimates that global TV viewing of sports peaked in 2012. A 2017 study by Magna Global published in the SportsBusiness Journal showed that for 23 of 24 sports in the U.S., the median viewing age was increasing – the NFL's median viewing age increased from 46 in 2006 to 50 in 2016, while Major League Baseball's changed from 52 to 57.

No doubt this is leading to innovations such as ever shorter formats of matches and competitions (T20, Big Blast and IPL, now a mooted 100 ball-a-side competition in cricket; and Tie Break Tens in tennis) seeking new, younger audiences. In motor sports, Formula1 has dropped its Pit Lane Girls while recognizing the need to reach more female fans; while FormulaE is a more climate-conscious cousin which is gaining traction.

Other innovations stem from technology, including the Video Assistant Referee (VAR), debuting at the World Cup finals and decisively in the final itself, and ball tracking devices. New technological possibilities are being hardwired into the infrastructure of purpose-built 'smart' stadia the world over, from the

Mercedes-Benz Stadium in Atlanta, to the new Besiktas Stadium in Istanbul (sponsored and built by Vodafone as demonstration of its capabilities), to the eight stadia being purpose built for Qatar's own World Cup.

Challenges for CEOs

Sports rights owners, broadcasters and advertisers all must determine how they can continue to extract value from sports and how to capture the next generation of fans, who are used to paying on-demand (or not at all) for everything else in their lives and get them to pay for sports content. Traditional subscription models are fracturing for broadcasters. Theoretically this should put rights holders in a position of strength. But this relies on them resolving two questions: how do the leagues and rights holders exert sufficient economic control over the clubs and the players to be able to convince them that they should continue to speak for them and collectively bargain for more than they can achieve alone?

Also at issue is the question of pricing. To what extent is fandom price inelastic – or can loyalty be stretched to a breaking point, beyond which fans won't pay and will vote with their feet? It is no wonder that we are seeing more performance-linked sponsorship agreements being introduced – for instance with AB-InBev in its sponsorship of NBA franchises. The theory of enlightened self-interest being not only that a successful basketball team draws more fans, but fans of a successful team want to drink more beer.

The chances are that sports and – in particular football (soccer) – will continue to find growing audiences between now and the next World Cup in Qatar, and for decades yet to come. But don't expect those fans to look like the fans of today, nor to watch their teams in the same way – and don't expect the owners, investors, rights holders and distribution partners to look the same either. The beauty of sport is its unpredictability – and never before has that applied as much in the boardroom as it does on the pitch.

Politics

China's Deleveraging Overshadows Trade War

Paul Haenle, Senior Advisor

As Washington and Beijing edged closer toward a trade confrontation in June, the trade imbalance between the United States and China reached a record $28.97 billion.[1] A rush of purchases made by U.S. importers before the July 6 tariff deadline was partially to blame for the growing bilateral surplus. Overshadowed in the data, however, were signs that President Xi Jinping's financial tightening and deleveraging campaigns were beginning to take a toll.

Xi has cited financial risks as "a critical battle" for the future. Over the past year, Xi has overseen a crackdown on risky lending and hidden debt, the rapid increase of which is one of the main drags on his goal of "quality growth." As a result, China has seen an increase in funding costs, slowing consumption, and weaker industrial output.[2] June data showed imports were decreasing not just from the United States, but around the world.

Beijing has carefully managed a gradual slowdown of the Chinese economy for the better part of the last decade, buoyed at times by aggressive stimulus measures. But after years of easy credit and breakneck growth, the Chinese leadership faces mounting corporate and local government defaults. If unaddressed, debt could pose a long-term threat to the Chinese economy, whose continuous growth has underpinned the legitimacy of the Communist Party since preeminent leader Deng Xiaoping launched his program of reform and opening forty years ago. This may explain why Xi, even in the facing of faltering growth and a trade confrontation, appears to be applying stimulus more selectively than in past downturns.

Few countries manage to pull off soft landings, and trade conflict makes the task even trickier. The announcement by China's central bank that it would cut reserve-requirement ratios in June to provide limited support to banks ahead of expected U.S. tariffs underscored these challenges. It is no secret

[1] https://www.bloomberg.com/news/articles/2018-07-13/china-s-exports-hold-up-though-imports-slow-more-than-forecast
[2] https://www.wsj.com/articles/china-shifts-gears-to-support-economic-growth-amid-trade-conflict-with-u-s-1531747756

that Chinese policymakers have struggled to deal with Donald Trump; when Beijing's "tit for tat" response measures failed to get the United States to back down, it shifted to the defensive by ramping up broad expansionary policies.

How the Chinese leadership navigates tensions between the twin goals of stable economic growth and debt reduction will have global significance. China is the world's largest exporter and manufacturer. It accounts for more than a third of global economic growth. China's monetary tightening has meant slower growth in China and the world economy. Its slowdown is already showing up in weaker eurozone growth and a slide in South Korean exports. This is a test of China's readiness and willingness to be a global economic leader, not just a big economy.

Ultimately, China's tough line on deleveraging is good for the economy's long-term sustainable growth. Although China's economy can seem like a juggernaut, few things would threaten economic and, therefore, political stability as much as a banking crisis. Ridding the financial system of its debt overhang and reforming the way it allocates capital will change the way the economy operates and promote efficiency, as well as new industries. With a slower economic outlook in the next 12-18 months, investors need to prepare accordingly while China should expand reforms and further open its economy to foreign investment.

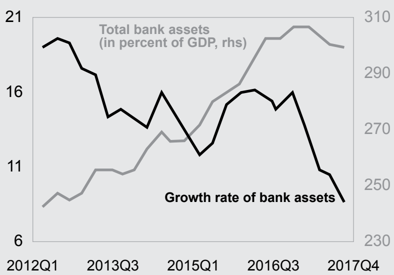
Remedial Steps

Reining in Debt Levels: China's addiction to credit – which can be traced back to the global economic crisis in 2008, now threatens growth. China has tolerated rising debt in order to sustain GDP growth rates that are sufficient to maintain full employment and rising living standards for Chinese citizens, outcomes that help bring legitimacy to the Communist Party. But the pace of debt accumulation may no longer be sustainable. Moreover, the money is increasingly flowing through channels outside the regulated banking system, leaving China vulnerable.

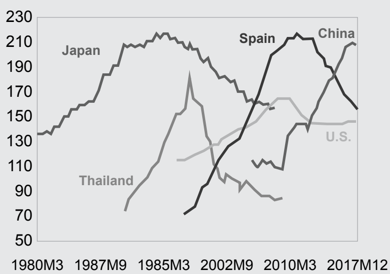
In 2017, Moody's cut China's debt rating, its first downgrade since the Tiananmen Square protests in 1989. China's debt problems are increasingly drawing comparisons to Japan, where, a credit-backed boom burst in the early 1990s. The Japanese government's subsequent reluctance to deal with indebted companies has contributed to decades of slow growth. The Chinese government would like to avoid a similar fate, but it will require painful measures.

Over the past eighteen months, Chinese policymakers have taken monetary policy measures to crackdown on risky lending and make progress in reining in its debt levels (see Chart 1). Flows into the "shadow banking" system have been reeled in, interest rates have been raised, and regulatory oversight has been strengthened. The aim has been to force companies and local governments to repay existing loans, borrow less, and write off bad debts in order to create a more stable financial system. Some initial progress has been made, as evidenced by a stabilizing overall ratio of debt to GDP. But it's too soon to stop (see Chart 2).

Bank assets/GDP ratio declined for the first time since 2011
(In percent)



Credit to the nonfinancial private sector
(In percent of GDP)



Source: Haver Analytics.
Source: IMF annual assessment of China's economy, page 8: https://www.imf.org/en/Publications/CR/Issues/2018/07/25/Peoples-Republic-of-China-2018-Article-IV-Consultation-Press-Release-Staff-Report-Staff-46121)

Raising Interest Rates: The People's Bank of China (PBOC) took aggressive action to discourage risky borrowing by raising interest rates on one-year risk-free loans by 70 basis points in the fourth quarter of 2017—an increase nearly three times that of any hike by the U.S. Federal Reserve in its current cycle. As a result of these interest rate hikes, spending and investment declined precipitously in the first half of 2018, which weakened demand and slowed inflation. Even as the PBOC has cut interest rates in 2018, the rate of decline for inflation has outpaced interest rate cuts, meaning that the real cost of borrowing actually increased during the first six months of the year. Furthermore, after interest rates peaked at the end of 2017, China saw an increase in capital inflows, which led to currency appreciation in 2018 and was responsible for China's first current account deficit in 20 years.

Tightening Regulations on Shadow Banking: As credit has become increasingly scarce and borrowers look to other sources for lending, the government has stepped up efforts to increase regulation of China's $10 trillion shadow banking sector since late 2017. These efforts have proven successful, as they have deterred banks from taking on risky investments. Shadow banking assets as a proportion of GDP – which had more doubled from 39 percent in 2011 to 87 percent in 2016 – reversed the recent trend and dropped to 79 percent in 2017.[3] Efforts to reduce risky lending practices are ongoing, but the early results of increased regulation have been promising.

Limiting Local Government Borrowing: China has taken action to defuse local debt risks by imposing increasingly stringent regulations on local government off-budget borrowing and eliminating regulatory loopholes. In order to skirt regulations on off-budget borrowing, local authorities have often resorted to means such as establishing public-private partnerships and government service procurement contracts to secure funding. Local governments have previously been heavily reliant on off-budget borrowing channels as the primary sources of funds for local investment projects. Eliminating off-budget borrowing channels has significantly impacted on-budget expenditures, resulting in a sharp decline in infrastructure development – which has been mostly funded by local governments – in the first half of 2018.

Three Critical Battles

Two major political conferences over the past year – the 19th Party Congress, where Xi abolished term limits for the Chinese presidency, and the subsequent Two Sessions – have served to solidify Xi's authority. First, at the 19th Party Congress, Xi called on China's top leadership to redouble efforts to re-calibrate China's economy by urging the Party to prioritize "higher-quality" growth over

[3] https://www.bloomberg.com/news/articles/2018-05-28/china-s-10-trillion-shadow-bank-crackdown-has-a-long-way-to-go

faster growth. In his work report, Xi also cited curbing financial risks as first on a list of China's "three critical battles" for the future, followed by poverty reduction and controlling pollution. He indicated a further departure from the government's annual growth targets by deliberately omitting any mention of the GDP target during his 3½-hour speech.[4] China took swift action after the conclusion of the Congress, announcing new deleveraging reforms designed to clamp down on shadow banking, tighten control on wealth management products, rein in local government debt, and limit real estate lending.[5]

Appointments made at the two major conferences allowed Xi to select personnel who will prioritize quality growth. Among those appointed by Xi, none saw a more rapid rise than Xi's top economic advisor, Liu He. In March, Liu was confirmed as one of four vice-premiers and assigned a broad portfolio, which overshadowed that of Premier Li Keqiang. Liu has also been appointed to lead the newly-established Financial Stability and Development Commission (FSDC), which is expected to help improve supervision and coordination among regulators and the central bank. According to University of California at San Diego economist, Barry Naughton, Liu He has a dominance of economic policy that can only be compared to Zhu Rongji's dominance when he was vice premier from 1991 to 1998.[6]

Liu's meteoric rise over the past year offers a sign that Xi is committed to fixing a financial system that has become over-dependent on risky borrowing to boost economic growth. Liu has been an advocate of the idea that China's debt-driven model of economic growth carries with it not only financial risk, but a more fundamental security issue. Liu is widely regarded as the anonymous "authoritative person" who gave an interview in 2016 to People's Daily that warned against relying on loose monetary policy to help accelerate economic growth.

Economic Slowdown Concerns

Despite the strong commitment by senior Chinese leadership to undertake the necessary steps to ensure the long-term health of the Chinese economy, there is growing sentiment in China that the pace of the slowdown has been

[4] https://www.scmp.com/news/china/policies-politics/article/2117060/xi-skipped-gdp-target-purpose-says-aide
[5] Markets get wake-up call from China's post-congress deleveraging moves, Reuters, 28 November 2017
[6] https://www.hoover.org/research/economic-policy-under-trade-war-conditions-can-china-move-beyond-tit-tat

too fast. Moreover, President Trump's trade rhetoric and tariff actions have caused public criticism of China's promoting of its Made in China 2025 plan and technological advancements. As a result, Chinese policymakers have tried to stabilize expectations and tone down their rhetoric.

A similar backlash and policy recalibration has been seen with the Belt and Road Initiative (BRI). Chinese State-Owned Enterprises (SOEs) that were previously unrestrained as they amassed large amounts of debt are now subject to more limited spending capacity as a result of mandates to reduce debt-to-asset ratios. BRI investment deals that are deemed too risky may be unwound, while the pace of new investments may fall off. Waning enthusiasm for the BRI – as evidenced by a 36 percent drop in BRI-related investment commitments and construction contracts in Southeast Asia during the first half of 2018 – coupled with China shifting its focus to managing its domestic economy, could lead to more favorable terms for neighboring countries negotiating BRI-related deals. These challenges, along with the cancellation of BRI projects in Malaysia and issues encountered on other BRI projects, could present opportunities for China to reassess project evaluation and implementation, leading to a more sustainable vision for the BRI.

In recent months, financial regulators have delayed the implementation of rules to curtail risky lending by banks and other institutions out of concern that the regulations would choke off a critical source of funding and rattle financial markets already shaken by worries over trade and the economy. China's State Council also has reversed course on pushing local governments to limit spending and has instead recently taken steps to urge them to speed up previously-approved investment projects in an effort to jump-start growth.[7]

In April, Xi chaired a Politburo meeting that reiterated China will maintain a proactive fiscal policy, and will keep monetary policy prudent and neutral, while also adding a new point that China will boost domestic demand to ensure the stability of the economy.[8] [9] This meeting occurred on the heels of an unexpected announcement by the central bank that it was cutting the amount

[7] China's Effort to Control Debt Loses Steam, WSJ, 12 July 2018
[8] China to strive to reach targets this year: politburo, Reuters, 23 April 2018
[9] China's high-quality development off to good start: CPC Politburo, Xinhua, 23 April 2018

of cash that banks must keep in reserves, raising concerns among investors about the risks to China's economic growth outlook and whether Beijing is backsliding on its promise to reduce debts.[10] A separate politburo meeting in late July called for top leadership to ensure "stable employment, stable finance, stable foreign trade, stable foreign investment, stable investment and stable expectation."[11] On August 2, the Financial Stability and Development Commission emphasized that de-risking and de-leveraging would continue, but shifted the focus to law enforcement and regulatory control.

Trump Vetoes

Escalating trade tensions with the U.S. have blindsided Chinese leaders, according to some experts,[12] and complicated China's efforts to carry out measures to deleverage its economy. The Chinese leadership believed Trump, as a businessman, would be transactional. They believed that by cultivating guanxi, or personal connections, with his family they would be able to make "deals." But, in the Chinese view, Trump has twice throttled negotiations by rejecting deals that his negotiators had reached and brought back to the capital: first, after Commerce Secretary Ross and Politburo Standing Committee member, Wang Yang, achieved agreement on modest openings to China's economy at the U.S.-China Comprehensive Economic Dialogue in July 2017; and later, after Vice Premier Liu He visited Washington, after already having been stood up by President Trump, and committed that China would increase purchases of U.S. goods and reduce the bilateral trade deficit. These experiences have discredited key Chinese policymakers and disempowered Trump's trade team. They have also convinced the Chinese that the United States has no coherent set of objectives or bottom line, and that President Trump is the only one who can make the final decision.

Since these failures, China's macroeconomic policy tools – monetary, fiscal and exchange rate policy – have all become more expansionary, giving China a relatively small boost for the next stage of the trade wars.

[10] China to strive to reach targets this year: politburo, Reuters, 23 April 2018
[11] Trump's tariffs prove tougher obstacle than China expected, Financial Times, 12 August 2018
[12] Economic Policy under Trade War Conditions: Can China Move Beyond Tit for Tat? China Leadership Monitor, August 2018

In June, the central bank announced a decision to cut reserve requirements that would take effect on July 5 – one day before the first round of tariffs levied by the Trump administration took effect. By cutting reserve requirements, the central bank hoped to help strengthen credit flows to small firms and boost growth to offset the negative impacts of the looming trade war. The cuts provided RMB 500 billion (USD 77 billion) to China's five large state banks and 12 national joint-stock commercial banks to allow lenders to conduct debt-for-equity swaps, which can reduce debt and help spruce up balance sheets. Another RMB 200 billion (USD 31 billion) was released by the cuts to provide funding for mid-sized and small banks to increase lending to credit-strapped small businesses.[13] Finally, the RMB depreciated by 7 percent in June and July, making Chinese exports cheaper and modestly boosting the economy.

Despite these challenges, China's top leadership maintains that policy support measures such as reserve cuts and cash injections into the banking system are limited actions providing targeted support, and do not signal that it is reversing course on its deleveraging campaign. Nevertheless, senior Chinese leadership faces a tough task in trying to guide China's economy to a soft landing in the face of an intensifying trade war. As the world's second largest economy, the effects of China's decisions in managing its economy extend far beyond its borders.

A prolonged trade war between the world's two largest economies would mark an important new chapter in the economic and strategic relationship between the U.S. and China. In the years after China's accession to the WTO in 2001, the two economies have become increasingly interdependent and intertwined as a result of burgeoning trade of goods and services, along with a rapid rise in cross-border investment. The Trump administration, however, has taken aggressive actions towards China, increasingly promoting the view that relations between the two countries amount to a zero-sum competition for global dominance. The widespread view now in China is that U.S. tariffs are the first step of a broader U.S. containment strategy and new Cold War. There is speculation that U.S. policymakers are rethinking the strategic benefits of

[13] As trade war looms, China cuts some banks' reserve requirements to boost lending, Reuters, 24 June 2018

U.S.-China economic interdependence. If these ideas prevail, the bilateral relationship could fundamentally be redefined for the worse, with broad negative implications for business, governments, and ordinary citizens.

Outlook for CEOs

While much attention will remain focused on the trade war between the United States and China, the key issue for companies with long-term business strategies in China to understand is much more fundamental: China remains much less open to trade and foreign investment than most countries—even developing ones. This is true across the board—whether examining tariffs, regulation, or market access rules. China's industrial policy allows its policymakers to disadvantage foreign firms. Government intervention continues to be pervasive. Chinese policy has remained non-transparent and biased.

Trade war aside, foreign firms must continue to press Chinese leaders to adopt more dramatic reforms and the opening of its economy. Despite repeatedly declaring its intention to do so, China has not followed through on making its business environment more open and fair.

If China follows through on fighting this 'critical battle' to wean itself off credit-spurred growth, the Chinese economy is likely to see slower growth rates over the next 12-18 months. This slowdown will have implications for the global economy as well, which is likely to see slower growth in the second half of 2018 and into 2019. The upside to this is that successfully deleveraging China's economy will be good for its long-term sustainable growth. Ridding the financial system of its debt overhang and reforming the way it allocates capital will also change the way the economy operates and promote efficiency, as well as new industries.

Xi Jinping remains firmly in control, despite rumors this past summer of simmering dissent within the Communist Party and criticism of his handling of the U.S.-China relationship. Xi recognizes that few things would pose a greater threat to economic and political stability than a banking crisis. An all-out trade war would increase the cost of credit tightening. Nevertheless, Xi has to a large extent shielded himself against a backlash towards his handling of the economy, as he used a sweeping anti-corruption campaign to remove his enemies and used the power he consolidated to line the politburo with his allies at the 19th Party Congress. He is also likely to save his policy ammunition for the fourth quarter after even larger U.S. tariffs could take effect.

China is not an easy place for foreign firms to do business. Trade tensions and slowing growth together create a complex business environment for multinational companies operating in China. Nevertheless, it remains an indispensable market. As such, CEOs should seek out opportunities to travel to China to both demonstrate their commitment to the Chinese market and gain a greater sense of the situation on the ground.

CEOs should seek to participate in key Chinese government-sponsored conferences and dialogues such as the Bo'ao Forum for Asia, China Development Forum and World Economic Forum's Annual Meeting of the New Champions – all of which provide excellent opportunities to engage with important stakeholders. Stakeholder engagement in China, however, should not be limited to meetings with government officials. Frequent engagement with leaders in business, academia, and media can help cultivate relationships that enable CEOs to gain a greater sense of the business environment from the perspectives of influencers who impact policy and decision-making in their respective industries.

Finally, it remains critically important that foreign companies demonstrate alignment with the leadership's objectives. Efforts to achieve the objectives outlined in the 13th Five Year Plan (2016 to 2020) are ongoing, and Xi's work report at the 19th Party Congress provides an overview of China's major objectives for the next 30 years and beyond. Multinational companies with long-term growth strategies in China must possess a comprehensive understanding of Xi's vision for China and should seek out opportunities to support these goals.

Uncertainty in Growing Asia

Bob Herrera-Lim, Managing Director and
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The decline of the United State in Asia is overstated, despite all the negative headlines. As the world's largest single market and still the only global superpower, the voice of the U.S. will, for the foreseeable future, still greatly influence developments in the region. However, even before Donald Trump's election as President, his withdrawal from the Trans-Pacific Partnership (TPP), and his administration's turn to protectionist and unilateral trade policies, it was apparent that the U.S. would face an increasingly complex political environment in the greater Asia-Pacific region, as China's power and influence grew and reordered longstanding political, economic, and military institutions. Meanwhile, as in other regions, populism and nationalism have become more important in domestic politics, which affects foreign policies, the treatment of foreign investors, and participation in multilateral agreements. In short, while the U.S. remains a "Pacific power," with a significant military presence, strong allies, and deep economic ties with the region, its ability to guarantee the peace, stability, and prosperity of the region may be increasingly limited as China and the region's other major powers pursue their own strategies, independent of Washington.

As the region's politics become more complicated, businesses must adapt to these changes, because if improperly managed, they may raise costs, generate reputational risks and, in the worst case, lead to exclusion from certain markets instead of presenting new opportunities for entry, growth, and supply chain development. For instance, the current trade dispute between Beijing and Washington, changes in labor and infrastructure availability, and the pursuit of new multilateral and bilateral strategies on trade across countries will likely continue to reshape cross-border supply chains. The Asia-Pacific region will also be the center for intense competition to win market share in emerging advanced technology sectors. While China's "Made in China 2025" plan to shift resources into advanced technologies has drawn the most attention, Japan, South Korea, and other states have also developed plans to promote their own advanced manufacturing industries. The race to get an edge in the technologies of the "Fourth Industrial Revolution" – robotics, Big Data and artificial intelligence, biotechnology, and autonomous vehicles for example – will intensify the competition within the region to set trade and investment standards. In this race, local upstarts will in some instances challenge even global brands, a phenomenon now in China and emerging among the lower-income countries with China-branded technologies. In Asia, this competition will occur against the backdrop of rising nationalism and populism, as public dissatisfaction with unrestrained globalization (mainly because of previous crises and inequality) will strengthen the political willingness of governments to engage in nationalist behavior, even though these types of policies may penalize longer-term growth or economic efficiency. Therefore, sensitivity to domestic sensibilities can determine failure or success for both Chinese and Western companies.

Despite these uncertainties, Asia will still be among the most dynamic regions, even as medium-term growth in China slows to around 6.5 percent from the 7percent trend (which the political leadership is expected to tolerate). India's growth is expected to exceed 7 percent starting next year, while in the Association of Southeast Asian Nations (ASEAN), growth will be roughly 5.3 percent according to International Monetary Fund (IMF) estimates. With the region accounting for 60 percent of the world's population, its middle class will only continue to grow, if at different paces in different places. Serving them will require new logistical arrangements, new infrastructure, new manufacturing, and, most of all, new rules for trade and investment. The logic, therefore, seems unassailable – that Asia needs new rules that reflect these changing economic patterns. But their development has been anything but certain.

Why Uncertainty Abounds

The narrative for the better part of the two previous decades has been that China's inexorable economic rise would eventually increase its political clout and military capabilities. This expectation only grew after 2008, as China avoided a deep recession while the U.S., Europe, and Japan struggled with slow growth following the Global Financial Crisis. With the U.S. focused on internal issues and preoccupied with crises in other regions, Beijing would inexorably become the region’s dominant power. The only debate was how quickly China would emerge as Asia’s hegemon – and whether it could happen without open conflict with the United States.

The Obama administration sought to combat this narrative, most notably through its “Asia rebalance” strategy, which would bolster U.S. military deployments in the Asia-Pacific region, strengthen longstanding alliances and establish new partnerships (with Vietnam, for example), and promote the TPP as a new set of rules to govern trade and investment across the region. While the Obama administration claimed that it was not trying to “contain” China, inevitably this strategy led to friction with China, whether over freedom of navigation in the South China Sea or former President Barack Obama’s warnings that without the TPP China would “write the rules” for Asian economic integration in the twenty-first century. The rebalance was flawed: too focused on military deployments and too dependent on a trade agreement that Obama was unable to convince his own party to support, arguably a casualty of political dysfunction in Washington that stymied other policy initiatives. Nevertheless, the rebalance strategy was a useful symbol of Washington’s willingness to update long-standing regional institutions for a more fluid era and challenge the narrative that China would inevitably inherit regional leadership.

However, with the transition to the Trump administration and U.S. withdrawal from the TPP, Washington has been vexed by the problem of how to reassert its leadership in Asia not just through security guarantees and military deployments that spur alliances, but through rulemaking and institution building that promote regional development and integration. While the administration has been focused on specific problems in the region – North Korea’s nuclear program, China’s island-building in the South China Sea and its trade practices – it has not articulated a comprehensive regional strategy that would address these and other issues. This is most visible on trade and economic integration, where Washington has pursued an aggressively unilateral approach to trade that not only led to the withdrawal from the TPP but has also led the U.S. to impose tariffs on national security grounds on major U.S. allies, including those in the region, thereby antagonizing otherwise willing partners in the process of drafting trade and investment rules to combat many of China’s most harmful trade and industrial policies.

As a result, Beijing has perceived an opportunity to emerge as a champion of free trade and globalization both in the region and globally. In January 2017, days before Trump's inauguration, Chinese President Xi Jinping rejected protectionism and trumpeted the benefits of globalization in his first-ever speech at the World Economic Forum in Davos. Xi has returned to this message repeatedly since then, and communiques from meetings between Chinese officials and their counterparts in Asia and Europe now regularly include language upholding the value of economic integration and decrying protectionism.

However, Beijing's bid to assume a leadership role in promoting global economic integration has not been an unalloyed success – and, to the extent that China's ambitions could be stymied, is therefore a source of regional uncertainty. Notwithstanding Beijing's support for free trade, the Regional Comprehensive Economic Partnership (RCEP), a "megadeal" that includes ASEAN, China, Japan, South Korea, Australia, New Zealand, and India, has been stuck in talks for years, not least because China and India have been unable to agree on appropriate terms for the liberalization of trade in goods and services.

Meanwhile, the Belt and Road Initiative (BRI), launched early in Xi's first term, is both a paramount economic program and foreign policy strategy, but despite a tremendous amount of fanfare (investment promises that could be more than one trillion U.S. dollars and dozens of countries across the globe signing up to receive Chinese investment in infrastructure) the reality has thus far been disappointing. Not only have outlays been far less than promised, but in places where China has invested through the BRI, it has sparked concerns about debt sustainability, transparency, and environmental standards. Recent episodes have reinforced these concerns. In December 2017, Sri Lanka ceded Hambantota Port, a project that had been built and financed by China, to Beijing on a 99-year lease after it was unable to service its debt. Pakistan has struggled to service its BRI-associated loans and may seek assistance from the IMF. Chinese infrastructure investment has encountered domestic resistance across the region, including in Malaysia, where newly elected Mahathir Mohamad immediately suspended Chinese projects pending review and renegotiation and in Myanmar, which in July asked China to reduce a port project for fears that it could see a repeat of the Hambantota episode. Other would-be BRI partners have been reluctant to accept Chinese financing in the first place. While the region's middle-income countries are still hungry for infrastructure development, they are increasingly wary about the BRI as a source for investment. ASEAN is particularly divided on all of these issues, mindful of how overexposure to Chinese funds and investment could generate domestic labor and debt problems, but at the same time, not wanting to miss out on opportunities in the Chinese market and the benefits of Chinese technology and investment.

Finally, China's bid for regional economic leadership could be hampered by its domestic economic issues. Even before the Trump administration embarked on a "trade war" with China, China's growth was slowing; trade friction could exacerbate this trend. China's domestic debts remain a looming concern and potential constraint on growth. And, just around the corner, China could face a demographic crunch even as it tries to build a more robust social safety net.

Given these foreign and domestic constraints, China's assumption of regional leadership will be far from unchallenged. It will be an important, even indispensable partner for most of the region's economies, but it is far from guaranteed that it will be able to translate its economic might into an ability to write the region's trade and investment rules or redraw the region's economic map through infrastructure investment and "debt book diplomacy."

Japan Emerges as an Alternative to China

With the U.S. and China preoccupied with other issues and otherwise unable to spearhead the regional institution-building process in the near term, other governments have stepped forward to exercise leadership.

Since the U.S. withdrawal from TPP, Japan has emerged as the most consistent proponent of regional and global economic integration. Japanese Prime Minister Shinzo Abe has been no less a champion of globalization than Xi, but as the leader of a relatively open and free economy that has abandoned many of the kinds of trading practices that have led to tensions between China and the U.S., Abe is a more credible champion than Xi.

Japan is no stranger to regional economic leadership, having contributed to the development of Southeast and South Asian countries since the early 1950s, beginning with reparations during the early postwar period and continuing to significant amounts of official development assistance (ODA) and investment as Japan's economy achieved takeoff growth. To a certain extent, through the BRI China is following a path forged by Japan, which realized during the postwar era that by investing in the industrialization of Asia's less-developed countries, it could create market opportunities for Japanese firms, strengthen Japan's relations with strategically important countries, and secure access to raw materials.

Under Abe's leadership, the Japanese government has upgraded this regional strategy in the face of Chinese competition. This process began shortly after Abe returned to power in December 2012 – by spring 2013 the Abe administration was drafting an infrastructure export strategy and had established a target of JPY 30tn in orders for infrastructure exports by 2020, three times larger than its 2010 exports – and expanded as the administration matured. Over time, the Abe administration developed an approach to regional development and infrastructure investment that emphasized "quality" as opposed to quantity, a clear contrast with China's approach in the BRI. Most notably, in 2015, Japan updated its Development Cooperation charter, stressing the need for "quality growth" that is inclusive, sustainable, and resilient, and later that year created the Partnership for Quality Infrastructure, which entailed both streamlining the process of investing in regional infrastructure and increasing public funds available for lending.

But the development of an updated regional economic strategy assumed a new urgency after the U.S. withdrew from the TPP. The Abe administration shared the Obama administration's view of the TPP as a strategic tool for binding the U.S. to the region, as well as for contributing to the drafting of new rules and supporting the development of emerging market members like Vietnam and Malaysia. With the U.S. out of the TPP, Tokyo had to consider whether to revive the TPP without the U.S., find a way to draw the U.S. back in, or emphasize RCEP or other alternative arrangements. After several months of deliberation, the Abe administration opted to revive the TPP, which after only a few months of talks and small tweaks to the 2016 agreement, resulted in the signing of the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP), which includes all 11 remaining members. In a few short years Japan had gone from a reluctant participant in the TPP negotiations to the leader of a revived pact that remains Asia's highest-standard agreement and which is attracting interest from prospective members both within the region, and as distant as the United Kingdom, even before coming into force. As the bloc grows, it could pose a greater challenge to China, which could eventually have to choose between participation (and domestic reforms to conform with the rules) or exclusion from an increasingly dense network of trade and investment. Of course, it could also pose a challenge to the U.S., which could also find itself excluded from market opportunities in Japan and other CPTPP countries – which arguably is one reason why Japan decided to revive the TPP without the U.S., as well as pushing for swift conclusion to negotiations for an economic partnership agreement with the European Union (EU), an agreement that was signed in July 2018.

At the same time that Japan decided to prioritize these mega trade deals, it was also deepening its commitment to quality infrastructure investment. 2017 saw the emergence of a partnership between Japan and India as part of a shared commitment to the "Free and Open Indo-Pacific" and as an implicit challenge to the BRI. Japan has both engaged India as a partner for advancing quality infrastructure investment in Asia and neighboring regions – in May 2017, they unveiled the Asia-Africa Growth Corridor, which would fund projects linking Asia to the east coast of Africa – and used India's reluctance to receive Chinese investment to increase its own investment in Indian infrastructure.

While Japan may not be able to match China dollar for dollar, Tokyo clearly has assets that have enabled it to assume a leadership role to rival Beijing's. Its companies have a long history of investing in Asia and are all too willing to shift manufacturing to developing countries in Southeast and South Asia; its government lacks China's ambitions for regional predominance; and it is willing to lend on friendlier terms to borrowing countries. Japan is not going to supplant China – and may in fact be willing to cooperate with China under the auspices of the BRI on a limited basis – but it is fully capable of providing Asian countries with an alternative to dependence on Beijing.

South Korea Looks South

As Japan has moved into the region's leadership vacuum, South Korea has taken its own steps to increase its footprint in the greater Asia-Pacific region, particularly in Southeast Asia. While visiting Indonesia in November 2017, South Korean President Moon Jae-in announced a "New Southern Policy" that would strengthen South Korea's already-strong economic links with ASEAN. The new policy entails a series of agreements with ASEAN's largest economies to encourage the expansion of trade and create new opportunities for public and private investment by South Korea across Southeast Asia. South Korea could also follow Japan in deepening trade and investment links with India; on a trip to India in July 2018, Moon referred to India as South Korea's "next China" in terms of its potential political and economic importance.

However, while South Korea will offer the region's countries another source of investment, South Korea will still be a second-tier player next to China and Japan. Not only is it smaller than Japan, but South Korea has also remained aloof from the regional rule-setting process, opting to stay out of the TPP, for example. The Moon administration, meanwhile, is preoccupied with slowing growth and concerns about inequality and the lack of opportunity for young Koreans. Finally, South Korea's export-led growth model makes it uniquely vulnerable to the trade tensions between the U.S. and China, its two largest trading partners. However, the U.S.-China trade war and trade tensions with China due to South Korea's deployment of the Terminal High-Altitude Area Defense (THAAD) missile defense system highlight the need for South Korea to diversify away from its giant trading partners, so the Moon administration is likely to deepen its commitment to the New Southern Policy during its remaining years in office.

Getting the U.S. Back in the Game

The biggest question across the region, however, is whether the U.S. will find a way to recommit to a regional economic strategy for the Asia-Pacific. The Trump administration took some initial steps towards articulating this strategy in July 2018 when, shortly before a trip to Southeast Asia, U.S. Secretary of State, Mike Pompeo, outlined Washington's "Indo-Pacific Economic Vision" and how the U.S. intends to contribute to economic development in a region stretching from the East Coast of Africa to the Central Pacific. It is an attempt to reframe an approach to Asia which has so far been dominated by crisis management during the past two years, on the Korean peninsula, in rising trade tensions with China, and the continuing standoff in the South China Sea. While the administration fully embraced the Indo-Pacific concept – renaming the U.S. military's Pacific Command to Indo-Pacific Command in May 2018, for example – it has been slow to flesh out this concept as a comprehensive military and economic strategy.

However, Pompeo offered less of a comprehensive economic strategy than what he described as a "down payment on a new era in U.S. economic commitment to peace and prosperity in the Indo-Pacific region." This speech was long on principles consistent with the president's "America First" approach to trade policy, Pompeo stressed "fair and reciprocal" trade and "transparent agreements" – but short on specifics when it comes to Washington's regional priorities and its policy tools. For example, the secretary's "down payment" was USD 113mn for investments in the digital economy, energy security, and infrastructure, a sum that pales in comparison to the headline numbers of China's BRI and is also considerably less than what Japan has proposed in new infrastructure investment. While Pompeo suggested that other funds could be forthcoming, he also stressed that only the private sector could fill Asia's infrastructure gap; this happens to be true, but there is a risk that it will be an excuse for under-resourcing an infrastructure strategy instead of using public money to leverage private-sector investment, as Japan has done through loan guarantees, access to public credit, and insurance schemes.

The upshot is that the region's players are still waiting for the U.S. to signal how deeply it will be involved in shaping regional economic integration in the coming years. Governments across the Indo-Pacific still want the U.S. to be more engaged economically. They want the U.S. to offer a positive agenda for strengthening economic links within the region and across the Pacific, not least because many of the region's governments are uneasy about the risks of accepting Chinese financing for infrastructure projects. However, none of the region's major economies are passively waiting for Washington to flesh out a more detailed strategy. They are all moving ahead with policies to strengthen their links within the region, particularly with the fast-growing, middle-income countries of Southeast Asia.

The Region's Promising Growth Prospects

Regional uncertainty will not be resolved soon. China's approach has largely been transactional, offering investment in exchange for access in parts of South Asia and bargaining its way through maritime territorial disputes. On the other hand, the U.S. approach still lacks the coherent values and ideas that drew in diverse countries in the past decades. The more the U.S. continues with a transactional approach to negotiations, the faster China's role in the region will grow. Japan has staked out a leadership role for itself in both infrastructure development and trade and will continue to strengthen these ties in the coming years, but it will take time for these initiatives to bear fruit. Bringing new members into the CPTPP, for example, will take time – and it is unclear whether RCEP, to which Japan has also committed, can overcome the considerable obstacles that have prevented its conclusion. In the absence of overarching agreements, the rules governing trade and investment are likely to become more complex.

There is an old adage that form follows function in Asia, and that eventually, as governments and economies adapt and reshape their policies, rules will become set and institutions will take on modified roles. New institutions may emerge that reflect the shifts in the balance of power. Trade agreements may eventually unify for a Free Trade Area for Asia and the Pacific. However, monitoring these risks will not be sufficient. Taking advantage of emergent opportunities or mitigating risks will most likely require a presence on the ground in Asia, and a seat at the table in industry associations and regional dialogues. Managing relationships from afar, at a time of unpredictable change and when the complexity of rules and interconnections is growing, can increase, rather than decrease, risk. The geopolitics of Asia will continue to be in the headlines for the coming years, as the region's established powers and rising powers compete to upgrade or build institutions that will govern the growth of what remains the world's fastest growing region.

Russia and China: Towards a (More) Strategic Partnership

Dr. Otilia Dhand, Senior Vice President

Russia and China have been on a diplomatic honeymoon for the past five years. The two countries presidents, Vladimir Putin and Xi Jinping, have put on a display of friendship and partnership, and their frequent summits showcase intensifying bilateral cooperation. However, what does the future hold for this important power partnership? Are Russia and China on the road to an alliance or are there hidden fault lines that could soon ruin their relations?

Russia's Pivot to Asia

To project an image of global power, Russia typically engages with the United States. However, its relations with other key countries are gradually increasing in importance as the international order shifts away from its post-Cold War unipolar structure of U.S. dominance. In 2014, amid souring relations with the United States and the European Union, Russia's engagement with rising powers gained even more importance as Moscow sought new financing and trade links, in particular with China.

Russia and China share a resentment towards the unipolar world order that has dominated the post-Cold War era. They agree on a multi-polar future and have jointly placed effort in creating structures that seek to challenge the primacy of U.S.-dominated international institutions. Finally, they also share the sense of being encircled by U.S. policies, which has intensified in recent years.

Over the past four years since Russia announced its "pivot to East," the number of summits, staff-level meetings, military exchanges and joint exercises has increased rapidly. Russia and China announced joint energy and infrastructure projects, and the alignment of their respective flagship regional economic development projects – the Eurasian Economic Union and the Belt and Road Initiative. Extrapolation of this development would suggest an emerging alliance. However, under the surface, the story is significantly more complicated.

The results thus far of the intensifying bilateral relations have fallen well short of expectations. For example, in 2015, instead of increasing, mutual trade in monetary terms dropped significantly on the back of declining oil prices, and ruble exchange rate and trade flows only surpassed their pre-crisis levels in 2017. Some Chinese investment intentions have not been followed through, even in the most promising areas, such as the energy sector. Chinese banks have not replaced the lost financing from Europe and the U.S. to Russia, where European countries remain the most significant investors and trading partners even in the current sanctioned environment.

There are a few reasons why economic cooperation has not lived up to the hype. Chinese banks typically offer to finance those projects with Chinese content that contract Chinese companies, which differs from the long-term capital financing that Russian companies and banks seek. Moreover, worthy projects in Russia’s priority areas (the Far East regions bordering China) are few and far between. Chinese companies have also found it difficult to operate in Russia and complained about deficient governance and high corruption.

It follows from the above that the relationship is slanted significantly toward favoring China’s priorities. Russia seeks the trade, investment, and financing from China. The Chinese economy is eight times larger than the Russian one. Russia’s economy is stagnant and has little to offer beyond energy exports. Russia is the junior partner in this disproportionate relationship and is wary of becoming overly dependent on its more economically powerful and dynamic neighbor. The result is a reluctance to accept Chinese financing into some types of projects and feet-dragging on projects that should otherwise have been expedited.

Geopolitics: Fault Lines and Tension Points

Russia and China do not necessarily see eye to eye on issues of crucial geopolitical interest to one another. For example, China disapproved of Russia’s annexation of Crimea, as it opposes boundary changes on self-determination grounds – as claimed on the basis of the controversial referendum held in Crimea in March 2014 – due to its claims over Tibet and Taiwan. Conversely, Russia is hedging its stance on the South China Sea dispute. Depending on the context, Moscow's policy on the matter alternates between supporting some positions voiced by China (such as the Hague arbitration court decision rejecting Beijing's territorial claim) and some voiced by other parties (for example, by Russian companies taking part in the development of hydrocarbons resources in disputed areas on Vietnamese licensing).

In conducting bilateral relations, Chinese officials are well aware of Russia's power ambitions (as well as insecurities) and go out of their way to emphasize the two countries are equal partners. The language used between the two sides is always courteous, polite and appreciative, throwing into sharp relief the abrasive style and language that the Kremlin officials assume in its relations with the United States or European countries. China is also cautious about not stepping on Russia's toes in its perceived sphere of influence. However, again, Russia has no interest in becoming too dependent on one partner and seeks to develop relations with other Asian countries as well, most notably Japan and India, but also Vietnam.

Most importantly, however, the two countries share their backyard – Central Asia, where Russia may be set to gradually lose the most. The Russia-led Eurasian Economic Union (EEU), which includes Armenia, Belarus, Kazakhstan, and Kyrgyzstan is a project that seeks to emulate the European Union by developing a free-trade area with a political overlay. In contrast, China's Belt and Road initiative (BRI) is a more flexible concept, which envisages the development of infrastructure and trade links to ease movement of Chinese goods to westward markets. Kazakhstan is the most important node in the land-based 'Belt,' though other Central Asian countries also play a role. The EEU does not offer significant development incentives that these countries crave and relies on the importance of access to the Russian market for their economies. The BRI provides trade, investment, job creation and infrastructure development – a far more attractive offer with seemingly fewer political strings attached. Unsurprisingly, China is fast replacing Russia as the dominant economic power in the region. The May 2015 declaration on cooperation between the EEU and the BRI was interpreted as Moscow's tacit agreement to China's emerging economic dominance in Central Asia, while Russia would maintain its security role in the region.

Moreover, Chinese investment is now flowing into projects that may directly challenge energy imports from Russia. The China National Petroleum Corporation has recently expanded its portfolio of upstream projects in Kazakhstan despite the restrictive investment climate. While the Kazakh economy is still closely tied to Russia, it is increasingly defined by regional economic ties and imports from its eastern partners, perhaps foreshadowing the future of the region – a shift of the economic center of gravity from Russia to China.

The situation is similar in the Balkans – another region where Russia seeks to project its power, clashing this time with the EU. Western Balkan countries hope to benefit from the BRI, as the first European port on the maritime 'Road' ends in the Greek port of Athens and goods could be transported by rail and road North through the Western Balkans to core European markets. Most prominently, Serbia has been attracting probably the highest Chinese interest, with projects ranging from acquisition of the troubled Smederevo steel mill to wastewater treatment plant financing. Chinese banks finance nearly half of all ongoing infrastructure development projects in Serbia. Beijing is thus gaining outsized political influence in a country that is Russia's most outspoken ally in the region.

What the Future Holds

Despite the intensifying bilateral engagement, the disproportion in economic relations and differences on items considered to be of crucial importance to their respective interests suggest that the future of the relationship between Russia and China lies in the continuation of their strategic partnership rather than a formal alliance.

All other things equal, the power disparity between the two countries will continue to grow. China will become increasingly more powerful economically, while Russia stagnates. Chinese influence in Central Asia and the Balkans will continue to grow at the expense of Russian power as the BRI continues to develop. However, Russia seeks a global power position for itself and is unlikely to accept a junior role, while becoming more economically dependent on China and losing influence in Central Asia and elsewhere. As a result, tensions between China and Russia may emerge as their interests begin to clash.

However, it is unlikely that the two countries would allow their strategic partnership to fall apart. They both oppose the U.S.-led unipolar world and feel encircled by Washington's policies. They both actively work towards and seek to secure their positions in an emerging multipolar structure. And they need each other to create an alternative global multipolar order to challenge the dominance of U.S.-led institutions.

North Korea is one example where Russia and China have the ability to undermine the interests of the U.S. by acting together. In July 2018, the two countries used their votes in the United Nations Security Council to block disciplinary action against Pyongyang (over petroleum import limits breaches). Moscow has also sought a more active role in negotiations with North Korea, which may add a new multilateral dynamic to future talks.

Russia will probably use diplomacy rather than force if it finds that its interests clash with those of China, most likely over Central Asia. It is unlikely that Russia would use the same methods as it did in Ukraine to prevent Kiev signing an association agreement with the European Union if one of the Central Asian countries was shifting ever closer to China. On their part, the Chinese maintain an open dialogue with Moscow on their actions in the region and consult their moves to avoid tensions. The BRI and EEU projects have been formally aligned and are considered complementary rather than competing plans. China also emphasizes Russia's role as a provider of security in the region. China's tendency to create multilateral forums rather than act bilaterally also aids in providing a sense of partnership. These three tactics – consultations, recognition of Russia's role in the region and multilateralism – will likely prevent a significant falling-out, even if a crisis arises in their shared backyard.

On the other end of the spectrum of potential developments in bilateral relations, the disproportionate economic power relationship also limits the potential for the two countries to shift their intensifying ties to a new level and create a fully-fledged alliance. Such a scenario would only become an option if the two nations feel a long-term sense of encirclement by U.S. policies. In other words, if their shared nemesis becomes a more critical factor in their foreign policy decision making than differences in their interests. In the current situation, marked by sanctions and tariffs, such a scenario cannot be ruled out. However, in such case, Russian-Chinese cooperation would likely take the form of deepening collaboration without a formal treaty of alliance.

Towards a More Strategic Partnership

In sum, despite the intensifying bilateral relations and the surrounding hype promoted by both sides to boost the perception of the importance of their partnership and leverage in relations with other partners internationally, the economic achievements of the engagement between Russia and China on the whole have been modest. It is likely that in the near future, bilateral trade will continue to grow, although perhaps not crossing the proclaimed goal of overall trade turnover reaching USD 200bn a year by 2020.

Investment flows from China to Russia will depend mainly on the quality of opportunities offered and the Russia’s level of comfort with such investment. However, given that the economic strength of China and Russia will likely continue to diverge in favor of Beijing, Moscow’s insecurities are more likely to grow than to diminish.

However, despite their geopolitical differences, the two countries remain united on their basic vision of the world structure they wish to create. The depth of their cooperation will depend on both the alignment of their interests and the perception of the level of external threat they face together. In any case, both will continue to emphasize multilateral engagement, mutual consultations, and trying to avoid treading on each other’s toes in areas where their interests overlap.

Overall, it is likely that in the next year or two, Russia and China will continue to do more together. While on the economic front, the picture may be mixed, their strategic partnership will likely deepen, as long as the U.S. remains in an adversarial position to both. Expect the two countries, the two leaders and the two militaries to do more together, even without a formal treaty of alliance.

Populism's Continuing Challenges in a Year with Few Elections

Wolfango Piccoli, Co-President, Political and Policy Risk Advisory

Compared to previous years, 2019 will be light on big elections in Europe. Greece will have to go to the polls and Spain might, but the main political risk will not emanate from the electoral ballot. Rather than populist forces making further inroads, political risk in 2019 will be defined primarily by political systems that are coming to terms with the more permanent presence of anti-establishment parties. This will continue to constrain centrist parties' room to maneuver and cement a situation of elevated uncertainty for businesses.

The elections that are due in 2019 will probably be less important than these longer-term trends. This counts for the European Parliament vote, which will receive a lot of attention, but which will simply confirm that populist forces are now an established factor in European politics. Even where anti-establishment parties are doing worse than before in the polls, they will continue to complicate centrist policy-making. For example, the Greek elections are likely to be followed by difficult talks to cobble together a new government – even if it will likely be led by the center right rather than the far left of Prime Minister Alexis Tsipras.

In Spain, the parliamentary term is due to end in 2020, however new elections in 2019 are the most likely scenario. In power since 2018, the center left's popularity will likely be contingent on the ability of the government to pass at least some policy changes. These would also make it easier for Prime Minister Pedro Sanchez to justify the postponement of early elections for as long as possible. But the necessary compromise to adopt some reforms might lead to the abandonment of some past policy promises, which in turn might make Sanchez's Spanish Socialist Workers' Party (PSOE) vulnerable to the attacks of the far left Podemos.

Turkey, meanwhile, remains on its existing worrying trajectory, regardless of the local elections in 2019. Ankara's relationship with its Western partners will remain problematic, if not worsen. An empowered President Recep Tayyip

Erdogan will press harder for Turkey to be treated on an equal footing by all its allies and will likely continue to blame them for Ankara's domestic political and economic problems. The potential structural problems posed (democratic backsliding, weakening of the rule of law and independence of key state bodies) by the new presidential system will not allow any progress in the already moribund EU accession process. Equally bleak are the prospects for Turkey-US ties. Erdogan will also continue to take a hard line on the Kurds, not just domestically but also in Syria and Iraq, further complicating ties with Washington.

In Germany, regional state elections in 2019 provide the opportunity for good results for the far right AfD – not least because one will be held in the city of Bremen, a former stronghold of the center left, and three in formerly communist East Germany, where the far right has traditionally been doing well. The penultimate full year of Angela Merkel's chancellorship might therefore see a continuation of populist pressure on the political center.

Brexit: Navigating Populist Pressures in Action

But the biggest example of these continuous pressures will remain Brexit. The UK will leave the EU on 29 March at 11pm London time – midnight in Brussels. Yet the way in which the UK leaves remains subject of heightened political uncertainty. And the future relationship will only be resolved during the transition period lasting until the end of 2020 – if there is one at all.

The withdrawal agreement currently being finalized only serves the purpose of guaranteeing an orderly UK exit from the bloc. The one demand on which the Europeans have not moved, and will not move, as part of the withdrawal agreement is a fixed and legally watertight decision on whatever is required to prevent a hard border on the island of Ireland.

If this situation requires answers to questions of the future relationship, such as the shape of any customs union, they will have to be addressed before Brexit day in March 2019. This is because they affect the EU now, as they refer to questions of the border of the single market and of one of its member states, Ireland. It is this EU insistence on sorting the Ireland question now which is causing the UK problems at home, because it forces Prime Minister

Theresa May to address contentious questions such as the extent and location of customs and product controls before the end of 2018, or risk a disorderly Brexit without a deal.

Importance of Symbolic Measures

Within these substantially unchanged margins, the EU remains very likely to take symbolic measures to help May sell any deal at home. On top of the withdrawal agreement, the separate political declaration on future relations will likely be “ambitious” and will entail further talks on May’s ideas for future customs relations.

In fact, such EU signaling is what we have been expecting for a while now: help from the EU via a political declaration that will enable May to claim at home that the divorce payment to the EU is “rewarded” with the prospect of a deep trading relationship, and which allows her to argue in the UK that her lofty customs plans will remain on the table for debate during the transition period. In terms of non-political substance, however, it is crucial to remember that the legally binding withdrawal agreement remains likely to simply state that the UK remains in the customs union, with no end date or mechanism for a unilateral departure attached.

Similarly, in the unlikely case that the UK were to change its mind on freedom of movement, the EU might help wrap this UK commitment into some Swiss-style labor market provisions which are largely meaningless but could still make the acceptance of freedom of movement easier at home. In the more likely case that the UK does not move on that front, the EU will likely help package its Northern Irish backstop by moving some controls away from the Irish Sea (for instance, via regulatory cooperation similar to that of the Comprehensive Economic and Trade Agreement (CETA) between the EU and Canada) and by underlining that the Irish Sea would legally not become a “full” customs border (despite the required product checks).

The bottom line, however, is that despite the EU’s readiness to help with spin and packaging, Brussels and the member states will likely insist on the UK signing up to the Northern Irish backstop now and not later, to sort the border issue in a legally watertight form before the UK departs. This, in turn, means that the most contentious questions will still need to be sorted in Westminster. For there to be a deal, May will still have to engineer support for factually staying in the customs union as well as for product checks in the Irish Sea.

If she succeeds, the risk is that the domestic backlash undermines her plans for close trade ties to be negotiated as of 2019. In any case, even in the most benign scenario, trade and political ties will, per definition, be weaker than they will have been when the UK was a member of the EU. For businesses, this will mean new frictions and disruptions, whether in services trade or in cross-continental industrial supply chains.

The Central Banks in 2019

All of this will be closely monitored by central bankers who are otherwise on a trajectory towards renormalizing monetary policy. How quickly they can proceed, however, will depend on the political risks in Europe in 2019. This is problematic, because what has in many ways underpinned the relative calm Europe has been enjoying lately has precisely been ultraloose monetary policy.

At the same time, ever since European Central Bank (ECB) President Mario Draghi's 2012 promise to do “whatever it takes” to defend the euro, market pressure on governments to reform has decreased. This has left Draghi with little power to insist on the structural reforms he has been preaching ever since. Now that the Eurozone will have to do without his quantitative easing program as of 2019, the question will quickly be if and when rates begin to rise.

On the one hand, the changes that might be ahead in 2019 monetary policy normalization is positive because it will provide the ECB with ammunition for cuts in case of an economic downturn. On the other hand, once monetary policy normalizes, it will start to become clear that politicians have been complacent on the reform front over the last years. In that sense, the room for maneuver that rate hikes in 2019 might create for the central bank could come in handy much sooner than many might think.

If anything, the continued reliance on monetary policy in Europe shows one thing: politics remains the prime source of risks to businesses, investors and the overall economy also in 2019.

Biographies

Declan Kelly

Chairman & CEO, Teneo

Declan Kelly is the Chairman, CEO and a co-founder of Teneo. He is responsible for running all of the company's operations globally. Mr. Kelly is an advisor to several of the world's leading CEOs and corporations and is recognized in particular for his crisis management experience.

Prior to Teneo, Mr. Kelly served as the U.S. Economic Envoy to Northern Ireland at the U.S. Department of State. Mr. Kelly was appointed Economic Envoy by Secretary of State, Hillary Clinton, in September, 2009.

In his role as Economic Envoy, Mr. Kelly is recognized as having helped bring significant investment to the region from U.S. corporations. He also played a significant role in supporting the efforts that led to the historic devolution of policing and justice powers to the Northern Ireland Assembly, giving Northern Ireland fully devolved political governance for the first time in its modern history.

Prior to his government service, Mr. Kelly served as Executive Vice President and Chief Integration Officer of FTI Consulting (FTI), one of the world's leading international consulting companies. In his role at FTI, then a 3,500 person business with a market capitalization in excess of $2 billion, Mr. Kelly was responsible for the operational integration of the company's various businesses in more than 20 countries around the world. He also had responsibility for corporate strategy, global business development, global client management and all of the company's marketing and communications functions.

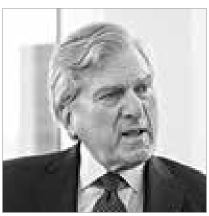
Prior to taking an executive officer position at FTI, Mr. Kelly was Chairman and CEO of Financial Dynamics in the United States and Chairman of Financial Dynamics in Ireland.

Mr. Kelly was a member of the senior management team which sold Financial Dynamics (FD) to FTI Consulting in September of 2006. Mr. Kelly had become part of the FD business when he sold his company, Gallagher and Kelly Public Relations, to FD in 2000. Prior to that, he held a number of senior management positions with other leading communications companies in Ireland.

Mr. Kelly previously worked as a journalist for more than a decade. He was selected as the recipient of the AT Cross Business Journalist of The Year Award in 1994.

Mr. Kelly is a graduate of The National University of Ireland (Galway). In 2012, he was awarded the Ellis Island Medal of Honor, presented to individuals of different ethnic backgrounds who distinguish themselves by their contributions to society in the United States. In 2008 he became the youngest-ever recipient of the American Irish Historical Society's prestigious gold medal, given annually to one person deemed to have made a unique contribution to Irish American society.

Mr. Kelly is an honorary Visiting Professor in Management and Leadership at Queen's University Belfast. In 2011 he also received an honorary doctorate from the University in recognition of his service to the community and economy of Northern Ireland. Mr. Kelly created and continues to underwrite and personally oversee the Northern Ireland Mentorship Program. The Northern Ireland Mentorship Program enables young university graduates from Northern Ireland to spend a year working within several leading corporations in the United States with a view to using their experience to embark on new careers in Northern Ireland. To date there have been over 100 participants in the program.



James Hoge
Senior Advisor

James Hoge is a Senior Advisor to Teneo. Prior to joining Teneo, Mr. Hoge was Editor of *Foreign Affairs*, a bi-monthly, non-partisan magazine of analysis and commentary on international affairs and U.S. foreign policy. During his 18 years as Editor, *Foreign Affairs* more than doubled its circulation to an all-time high of over 160,000 and also launched editions in Spanish, Japanese and Russian.

The magazine was founded in 1922 by the Council on Foreign Relations to educate the public on key international challenges and to enrich the debate on policy choices.

Prior to joining Foreign Affairs, Mr. Hoge spent three decades in newspaper journalism as a Washington correspondent, then editor and publisher of *The Chicago Sun-Times*, and finally, as publisher of *The New York Daily News*.

Faten Alqaseer
Senior Vice President

Faten Alqaseer is a Senior Vice President at Teneo where she focuses on improving the role corporations play in society. She advises a diverse group of public and private companies on conscientious business practices, helping them meet the public's evolving expectations of the private sector. Her work includes identifying vulnerabilities, addressing the wage gap, boosting inclusion in the workplace and setting policies to enable greater transparency.

Previously, Faten spent three years working on the interest rates sales desk at Bank of America Merrill Lynch in London, where she advised institutional clients on global economic drivers and financial markets and helped grow the Company's MENA Central Bank and Sovereign Wealth Fund business. More recently, Faten co-founded an EdTech start-up in Bahrain with the mission to deliver career development services to high school students, regardless of academic record or socio-economic background. She also helped launch The Novel Diner, an experiential pop-up restaurant in London.

Carol Bowie
Senior Advisor

Carol Bowie is a Senior Advisor to Teneo. Prior to joining Teneo, Ms. Bowie was an Executive Director at Institutional Shareholder Services (ISS) where she headed the Americas Research group that provides proxy-based research, analysis, and shareholder voting recommendations for thousands of public companies in North and Latin America.

Prior to that role, Ms. Bowie led Compensation Research Development at ISS for many years and previously headed the ISS Governance Institute Team that produced in-depth research and insight around key issues in corporate governance and coordinated ISS' U.S. benchmark policy development. Until its acquisition by ISS in 2005, Ms. Bowie was the Director of Governance Research at the Investor Responsibility Research Center (IRRC) in Washington, DC, an advisory service providing objective guidance on governance and proxy voting issues to institutional investors worldwide.

Tim Burt

Senior Managing Director

Tim Burt is a Senior Managing Director with Teneo, based in London. Mr. Burt acts for leading global companies such as Alcatel-Lucent, Guardian Media Group, Nissan and Universal Music, among others. In the past year, he has advised Kabel Deutschland and ONO of Spain in their separate acquisitions by Vodafone. Some of Mr. Burt's other transactions included: the sale of RationalGroup/PokerStars to Amaya of Canada; the sale of Trader Media to Apax; and the disposal by Vivendi of SFR and GVT.

Mr. Burt co-founded StockWell (now part of Teneo), after six years as a Partner at Brunswick, where he oversaw sectors including media, technology and automotive. He played a central role in Brunswick's international expansion, advising clients on major transactions. At Brunswick, his clients included Google, NBC Universal and Toyota.

Martha Carter

SMD, Head of Governance Advisory

Dr. Martha L. Carter is a Senior Managing Director and head of governance advisory services at Teneo. Dr. Carter advises CEOs and Boards of public and private companies on corporate governance best practices, activism defense, executive compensation, shareholder engagement, strategy, and other matters that come to the Board.

Prior to joining Teneo, Dr. Carter was the Head of Global Research at Institutional Shareholder Services (ISS) and Chair and Founder of the ISS Global Policy Board. During her 13 years at ISS, Dr. Carter led Global Research's team of

160 corporate governance analysts in 10 offices worldwide. Under Dr. Carter's leadership, the research team provided institutional investors with corporate governance research and proxy voting recommendations on more than 38,000 companies in 115 markets. In addition, the team produced corporate governance studies and white papers.

Betsy Cohen

President, Teneo Ventures

Betsy Cohen is the President of Teneo's ventures arm, which invests in technologies that make a step-function change in the way enterprise companies are doing business. Teneo offers operational capital, relational capital, and intellectual capital to bear to help our venture clients speed their path to enterprise sales, relationships, and scale.

Previously, Ms. Cohen was co-founder and CFO of a marketing intelligence company bought by The Nielsen Company. She also served as EVP of DialogBank Russia, bought by Sberbank. She's also worked in the private equity group at Oaktree Capital and the corporate finance division of J.P. Morgan. Ms. Cohen has an M.B.A. from Harvard Business School and an A.B. from Harvard University in Russian language and Slavic studies. She is a member of the Council on Foreign Relations.

Neil Daugherty

Senior Managing Director

Neil Daugherty is a Senior Managing Director with Teneo in London. Over a twenty-year career, he has advised major sports charities, governing bodies and clubs, including the Premier League, and FC Barcelona, as well as prospective investors in major global sports properties. Since 2012, he has advised the Supreme Committee for Delivery and Legacy, the delivery body for the 2022 FIFA World Cup™ in Qatar. From 2013 to 2017 he was the founding managing director of Blue Rubicon Qatar. He specializes in strategic communications projects, crisis communications and special situations.

Dr. Otilia Dhand

Senior Vice President

Dr. Otilia Dhand is Senior Vice President with Teneo's political and policy risk advisory group.

Dr. Dhand specializes in political risk of Central and Eastern European countries, including Russia and Ukraine. She is a member of the International Institute for Strategic Studies and holds a Ph.D. in the geopolitics of Central Europe from King's College, London. She also has a master's degree in Russian and East European Studies from St. Antony's College, University of Oxford, and a bachelor's degree in international relations and diplomacy from Matej Bel University in Slovakia.

Prior to joining Teneo, she was a CEE Region Analyst at Eurasia Group, and previously worked for the Economist Intelligence Unit, compiling global indexes in its custom research unit. Earlier in her career, she held various positions servicing foreign investors entering the market of her native Slovakia.

Hamish Docherty

Consultant

Hamish Docherty is a Consultant for Teneo.

He has experience across a number of divisions within Teneo, including reputation campaigning, reputation strategy consulting, crisis management and financial communications. He has live crisis experience, as well as experience developing and facilitating crisis simulations and desktop exercises for clients across a variety of sectors, including oil and gas.

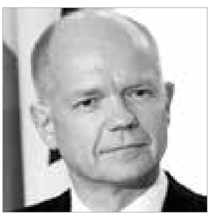
Paul Haenle

Senior Advisor

Paul Haenle is a Senior Advisor to Teneo. In addition to his role with Teneo, Mr. Haenle also serves as Director of the Carnegie-Tsinghua Center in Beijing, China.

Prior to joining Teneo, Mr. Haenle served as the Director for China, Taiwan, and Mongolian Affairs on the National Security Council staffs of former President George W. Bush and President Barack H. Obama. Mr. Haenle also played a key role as the White House representative to the U.S. Negotiating Team at the Six-Party Talks Nuclear Negotiations.

From May 2004 to June 2007, Mr. Haenle served as the Executive Assistant to the U.S. National Security Adviser. Trained as a China foreign area Officer in the U.S. Army, Mr. Haenle has been assigned twice to the U.S. Embassy in Beijing, China, served as a U.S. Army Company Commander during a two-year tour to the Republic of Korea, and also worked in the Pentagon as an adviser on China, Taiwan, and Mongolia affairs on the staff of the Chairman of the Joint Chiefs of Staff. Some of his early assignments in the U.S. Army included postings in Germany, Desert Storm, Korea, and Kuwait. He retired from the U.S. Army as a Lieutenant Colonel in October 2009.



The Rt. Hon. The Lord Hague of Richmond
Senior Advisor

Lord Hague of Richmond is a Senior Adviser to Teneo. He served as British Foreign Secretary from 2010 to 2014 and was leader of the UK Conservative Party from 1997 until 2001.

Lord Hague was first elected to Parliament for the seat of Richmond, North Yorkshire, at a by-election in 1989. At 27 years old, he was the youngest Conservative Member of Parliament. He was re-elected a further five times to Parliament, on the last three occasions with the largest margin for any Conservative in the country. Within two years of entering Parliament Lord Hague had become Parliamentary Private Secretary to the Chancellor of the Exchequer. In 1993 he became Parliamentary Under-Secretary of State at the Department of Social Security. He was promoted the following year to Minister of State with responsibility for Social Security and Disabled People. He introduced the landmark Disability Discrimination Act in 1995. Prime Minister John Major appointed him Secretary of State for Wales in the same year making him, at 34, Britain's youngest cabinet minister since Harold Wilson in

1947. Lord Hague became leader of the Conservative Party after the 1997 General Election, making him, at 36, the youngest leader of a major political party in the United Kingdom in 200 years.

Tobias Harris

Vice President

Tobias Harris is a Vice President for Teneo, based in Washington, D.C. An expert on Japanese politics, Mr. Harris previously worked for a Japanese legislator, has conducted graduate research on Japanese politics and policymaking, and regular appears in print and broadcast media. He provides running coverage of Japanese politics and economic for Teneo's financial clients.

Bob Herrera-Lim

Managing Director

Bob Herrera-Lim is a Managing Director with Teneo. He has been covering political and business risk in the Philippines, Thailand, Vietnam, Indonesia, Malaysia, Singapore, Cambodia, Myanmar and Laos since 2002, previously with Eurasia Group. He has advised firms not only with overall risk assessment at the regional and country level, but also developed and helped implement market entry, divestment and risk mitigation strategies for the firm's clients.

Before working in the United States, he was a practicing lawyer in the Philippines, and served in a variety of government and private sector positions. Including the chief of staff of the Majority Leader of the Philippine Senate.

Chris Jones

Vice Chair, UK, Strategy & Communications

Chris Jones is a founding Partner and a Vice Chair of Teneo's London-based strategy and communications offering. Chris has played a leading role in developing the London office's consulting services and today remains deeply involved in advising clients.

Most of Chris's time is focused on strategy consulting challenges. He works with the team on high-stakes projects for UK and global business to help them better meet their competitive challenges.

Kevin Kajiwara

Co-President, Political & Policy Risk Advisory

Kevin Kajiwara is Co-President of Teneo's political and policy risk advisory service. He leads business development efforts with financial and corporate clients, as well as presenting on global political risk.

Prior to joining Teneo, Mr. Kajiwara was the Director of Strategic Clients at Eurasia Group and a member of the firm's Operating Committee. In this role, he led the firm's business development efforts with strategic financial markets and corporate clients, and managed relationships with some of the world's largest hedge funds, private equity groups, wealth management firms, sovereign wealth funds, securities exchanges and family offices. Mr. Kajiwara played an active role in promoting the firm's research agenda and developing its macro views.

David Lurie

Vice President

David Lurie is a Vice President with Teneo, based in New York. Mr. Lurie joined Teneo in December from General Electric where he spent 5 ½ years in various marketing and communications roles.

At GE, Mr. Lurie focused on financial communications and media relations, supporting senior executives on all major financial events, proactive media opportunities and the development of new digital strategies for reaching investors. He also led the issues management heat map process for the function globally and served as lead spokesman for various corporate issues involving litigation, environmental disputes, healthcare benefits and SEC-related matters. In his most recent role Mr. Lurie managed paid media strategy for the brand across all media including TV, print, radio, search and digital, helping the company develop direct relationships with its key audiences.

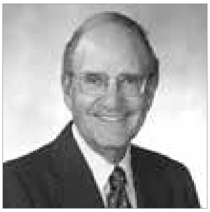
Seth Martin

Managing Director

Seth Martin is a Managing Director with Teneo. Mr. Martin has spent his career working in corporate communications across sectors including financial services and diversified industrials.

Prior to joining Teneo in 2016, Mr. Martin was Director of Financial Communications for GE, responsible for corporate and reputational issues, quarterly earnings, M&A, legal issues, the annual report, annual meeting and CFO communications.

Prior to joining GE, Mr. Martin was Vice President, Communications at Barclays in New York, managing media relations for several of Barclays' core business lines.



Senator George J. Mitchell

Senior Advisor

Senator George J. Mitchell is a Senior Advisor to Teneo. Senator Mitchell also serves as the Chairman Emeritus of DLA Piper. He served as U.S. Special Envoy for Middle East Peace from January 2009 to May 2011. He was appointed to the United States Senate in 1980 to complete the unexpired term of Senator Edmund S. Muskie, who resigned to become Secretary of State, and elected to a full term in the Senate in 1982. He went on to an illustrious career in the Senate spanning 15 years. While in the Senate, Senator Mitchell served on the Finance, Veterans Affairs, and Environment and Public Works Committees. He led the successful 1990 reauthorization of the Clean Air Act, including new controls on acid rain toxins. He was the author of the first national oil spill prevention and cleanup law. Senator Mitchell led the Senate to passage of the nation's first child care bill and was principal author of the low-income housing tax credit program. He was instrumental in the passage of the Americans with Disabilities Act, landmark legislation extending civil rights protections to the disabled. Senator Mitchell's efforts led to the passage of a higher education bill that expanded opportunities for millions of Americans. He was a leader in opening markets to trade and led the Senate to ratification of the North American Free Trade Agreement and creation of the World Trade Organization.

In 1995, he served as a Special Advisor to President William J. Clinton on Ireland, and from 1996 to 2000 he served as the Independent Chairman of the Northern Ireland Peace Talks. Under his leadership, the Good Friday Agreement, an historic accord ending decades of conflict, was agreed to by the governments of Ireland and the United Kingdom and the political parties of Northern Ireland. For his service in Northern Ireland Senator Mitchell received numerous awards and honors, including the Presidential Medal of Freedom, the highest civilian honor given by the U.S. government; the Philadelphia Liberty Medal; the Truman Institute Peace Prize; and the United Nations (UNESCO) Peace Prize. In 2000 and 2001, at the request of President Clinton, Prime Minister Ehud Barak, and Chairman Yasser Arafat, Senator Mitchell served as Chairman of an International Fact-Finding Committee on violence in the Middle East. The Committee's recommendation, widely known as The Mitchell Report, was endorsed by the Bush Administration, the European Union and by many other governments.

Wolfango Piccoli

Co-President, Political and Policy Risk Advisory

Dr. Wolfango Piccoli is Co-President of Teneo's political and policy risk advisory service. Based in London, he serves as Director of Research and also covers political risk in Europe, with a special focus on Italy, Greece and Turkey.

Prior to joining Teneo, Piccoli was the director of the London office and head of the Europe practice at Eurasia Group, where he was responsible for advising financial, corporate and government clients on political developments in Europe. Previously, he was an assistant professor in the Department of International Politics and an Economic and a Social Research Council (ESRC) post-doctoral fellow at the University of Wales, Aberystwyth. Mr. Piccoli is a frequent commentator on European politics in major media outlets, including the International Herald Tribune, The Financial Times, CNN International, CNBC, BBC, Bloomberg, CNBC Europe and Al-Jazeera English.

Megan Shattuck

President, Talent Advisory

Megan Shattuck is President of Teneo's talent advisory service offering. Ms. Shattuck counsels Teneo's clients in areas including: CEO advisory, strategic alignment, CEO impact, leadership development, C-Suite succession, recruiting, Board effectiveness and board succession planning.

Previously, she was a Senior Client Partner at Korn Ferry, advising clients on how to align talent with overall strategy, assess existing leadership teams, approach succession planning, and manage recruiting needs.

Nicole Sinclair

Managing Director

Nicole Sinclair is a Managing Director with Teneo.

Prior to joining Teneo, Ms. Sinclair served as Markets Correspondent for Yahoo Finance, where she reported on companies across a range of industries, along with key economic and market stories. Her sit-down video interviews included President Barack Obama, Bob Iger, Howard Schultz, Elizabeth Warren, Gary Cohn, Steven Mnuchin, and Marc Benioff, among others.

Ms. Sinclair previously served as Research Director for Jim Cramer's "Mad Money" on CNBC and worked on his book "Get Rich Carefully" with him. She also served as a senior producer at Bloomberg, helping to launch "What'd You Miss?" the market-close show.

Jonathan Wackrow

Managing Director

Jonathan Wackrow is a Managing Director with Teneo's risk advisory team. In this role, Mr. Wackrow leads strategic and crisis communications campaigns and advises CEOs, management teams, and Boards on issues relating to crisis preparedness, planning, management and response. Mr. Wackrow is also an exclusive Law Enforcement Analyst for CNN; providing on-air analysis of law enforcement, safety, and security matters.

Prior to joining Teneo, Mr. Wackrow was the Executive Director of RANE Corp's Advisory Group. Mr. Wackrow spent a majority of his professional career in the United States Secret Service, serving as a criminal investigator in New York City.

From The Authors

“Business leaders can see better than anyone else what skills are needed now, how those need to develop for the future, and how the provision of them is currently performing.”
– The Rt. Hon. The Lord Hague of Richmond

“It’s not about whether or not a recession will come, but instead what will cause it or when it will happen. With the recovery approaching 10 years, CEOs must have on the top of their mind: Could a slowdown come this year?”
– Nicole Sinclair, Managing Director

“For those exhausted by the nature and sheer volume of news, fake news, tweets, alternative facts, talking heads, populism, extremism and pure partisan blood-lust, we regret to inform you that 2019 does not portend much respite.”
– Kevin Kajiwara, Co-President, Political & Policy Risk Advisory

“Gen Z will soon become one of the largest and most active consumer groups in history.”
– Chris Jones, Vice Chair, UK, Strategy & Communications Advisory

“2019 will bring the convergence of many media disciplines, and a rise in strategies that don’t fit neatly into a paid, earned, owned or social tactics.”
– Seth Martin, Managing Director

“It is human unpredictability, the irrational behaviour that for many years was seen as a management weakness that just might become a management strength in the coming era of ubiquitous AI.”
– Tim Burt, Senior Managing Director

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