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MARTIN CURRIE

The *aftermath*

The world after Covid-19

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WHEN THIS IS OVER

COVID-19 is an unprecedented public health emergency which has profound socioeconomic implications. The strain it places on global healthcare infrastructure, economies and the social fabric of countries is severe. It is already in the process of materially changing governance in the world. In most cases these changes appear to be an acceleration of themes and trends that were already underway.

It naturally follows that there will be far reaching impacts and behavioural changes which may prove permanent.
At this point, it is hard to build conviction on when or how the emergency subsides; but the nature of markets is to constantly strive to quantify and identify cause and effect, trend and secular change.

It is in the spirit of resolutely looking through this crisis that this paper has been researched. It aims to focus on understanding the new realities that are occurring as a result of the pandemic and make sense of this once-in-a-generation situation of immense human suffering and material losses.

ABOUT KIM CATECHIS

Kim has 33 years investment experience, spanning developed and emerging market equities. He founded the successful Emerging Markets strategy at Scottish Widows Investment Partnership (SWIP) in 1998. Kim joined Martin Currie in 2010, to develop the firm's Emerging Market capabilities performing the role of portfolio manager and sector analyst. Since 2014, Kim has been dedicated to the provision of macroeconomic and political risk research for the Global Emerging Markets strategy. In 2019, Kim took on the role of Head of Investment Strategy. Alongside his role of providing macroeconomic and political research to the Emerging Markets team, he has responsibility for analysis and insights across global themes and supports our wider investment floor. He is fluent in Spanish, Portuguese, Greek and French, with intermediate language ability in Russian, German and Italian. Kim has an MBA from the University of Stirling and a BA in French and German language and literature.

COVID-19 is an unprecedented public health emergency which has profound socioeconomic implications.

EXECUTIVE SUMMARY

- **Existing trends in society, the global economy and geopolitics will accelerate but not deviate substantially.** The course has broadly been set already, from a growing rejection of traditional politics, to an increasing focus on climate change and a technology-led reinterpretation of business models.
- **The role of the state will change even in 'mature' and 'stable' democracies.** The harsh reality is that 'big government' is better placed to deal with pandemics. Even governments in hitherto considered mature and stable democracies are to varying degrees stretching traditional norms.
- **Societies will reassess priorities and change attitudes to economic systems, at least for a generation.** The manner in which governments behave over the next two years will set the direction for the next generation's implicit social contract. One component is the treatment of risk and the marginal cost of doing nothing. Another is an increasing rejection of government and of globalisation. Society will continue to focus on inequality and nationalism and these themes will drive policymakers in many countries.
- **Climate change policies could benefit from higher prioritisation.** Given the (almost) global extent of the cost of COVID-19, in human lives and in material losses, a recalibration of attitudes to global threats and an intensifying public pressure could result in a higher prioritisation of climate change policy.
- **Geopolitical risk will increase.** Every dormant or low-intensity geopolitical stress point in the world will become more amplified. The spectacle of the two strongest players failing to reach an accommodation means everyone else will feel free to ratchet up their own priority list. For many countries, there are sources of geopolitical or even existential risk that have lain semi-dormant for over 70 years and are reawakening now. The tone will be set by the US-China confrontation.

> *The course has broadly been set already, from a growing rejection of traditional politics, to an increasing focus on climate change and a technology-led reinterpretation of business models.*

THE ROLE OF THE STATE

Policy dilemma

We recognise that the largest and most immediate economic impact of the pandemic will be the global recession this year. It's too early to say with certainty how deep or how long the downturn will be, but it is immediate and global. The full extent of the economic impact will ultimately be dictated by both the rate and duration of transmission of COVID-19 alongside the effectiveness of stimulus measures taken by governments in the next weeks and months.

The conundrum facing policy makers is obvious – prioritise healthcare security and absorb the economic damage or try to walk a fine line between doing 'the necessary' on both. Unfortunately, most governments lost the initiative mere weeks into this pandemic. For some, it is now a desperate situation of playing catch up as new cases threaten to overwhelm the health services; others are in high stakes experimentation on timing a reopening to try to keep the economy going and the population circulating – it could result in a faster and wider spread of infections, increased absenteeism and lower productivity, not to mention increased healthcare and human costs.

For investors, the resultant patchwork of policy approaches within regions makes it very difficult to look past the next 12 months. We are drawn to focus instead on the shorter-term challenge, quantifying the severity and duration of the recession, but that is clearly not enough.

Economic impact – Wall St. versus Main St.

In purely economic terms, we have the recent example of coordinated action to address the effects of the Global Financial Crisis (GFC) in 2008/09. At that time, governments worked in close cooperation and developed coordinated policy responses. While imperfect, these did serve to deliver a fairly speedy resolution to the immediate aftermath.

At the emergency G20[1] meeting held by videoconference on 19 March 2020, we saw the first sign of coordination, which provided hope for real cooperation. In a joint statement[2], the leaders of the G20 countries committed to do *'whatever it takes'* to minimise the social and economic damage of the pandemic. The member states have since announced US$5 trillion of stimulus packages using fiscal policy and insurance schemes and promised to increase funding for multilateral bodies including the World Health Organisation (WHO) and the International Monetary Fund (IMF).

One very clear theme running through western policymaking debates is the anxiety over inevitable comparisons between the current stimulus packages and those enacted in 2008/09. In the US for example, the US$700 billion Troubled Asset Relief Program (TARP) went directly to banks, securities markets and large automakers. That unleashed a vigorous popular backlash, as it essentially rewarded those who created the crisis (the banks), because they remained an essential mechanism for continuing to provide credit to the real economy.

Unfortunately, the perception of a 'Main Street versus Wall Street' divide worsened as ordinary homeowners struggled over concerns about undeserving borrowers potentially benefiting from mortgage payment holidays. The result was a lasting sense of bitterness and both the Democratic and Republican parties paid the price: via the rise of the 'Tea Party' and 'Occupy Wall Street' movements. To this day, both parties have struggled to escape that legacy.

Some of that anger remains and has loomed over the design of the latest US$2 trillion bailout and stimulus package, which has focused on Main Street. It includes forgivable loans to small businesses, direct payments to households and unemployment insurance for individuals, as well as loans and support for airlines.

[1]The G20 is the forum for international cooperation amongst the 20 largest economies, accounting for 80% of world GDP. The members are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, South Korea, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom, the United States and the European Union (EU).

[2]Source: G20 Joint Statement, March 19th, 2020 https://g20.org/en/media/Documents/G20_Extraordinary%20G20%20Leaders%E2%80%99%20Summit_Statement_EN%20(3).pdf

Comparison of policy response in US, 2008-2009 and 2020

Economic Stimulus Act 2008[3] (billion)		Troubled Asset Relief Program (TARP) 2008[4] (billion)		American Recovery & Reinvestment Act 2009[5] (billion)		Coronavirus Aid, Relief & Economic Security (CARES Act) 2020[6] (billion)		Secondary amounts (billion)
Tax rebates for citizens	$152	Banks & Financials	$245	Tax cuts for citizens/business	$288	Unemployment Insurance	$250	
		Credit markets	$27	Aid to states and individuals	$273	Direct payments to households	$301	
		Auto sector	$80	Infrastructure, green energy, R&D	$226	SME forgivable loans	$349	$320[7]
		AIG	$68			Airlines	$29	
		Home mortgages	$46			Loans to states, business, Fed lending	$471	$700[8]
		Unused	$234			Direct aid to states	$150	
Total	$152 billion	Total	$700 billion	Total	$787 billion	Tax benefits & deferrals	$221	
						Grants to airlines	$32	
						Hospitals & veterans' care	$117	$164
						Public transport	$25	
						Other	$198	
				Total 2008-09	$1.64 Trillion	Total	$2.14 Trillion	$1.18 trillion

Sources: The Wall Street Journal and US Department of the Treasury, US Congress.

The response from other countries has been similarly nuanced, taking into account the real economic pain that is being felt by ordinary citizens, rather than large financial institutions. The UK and European countries have all delivered various stimulus and support packages that mainly target Small and Medium Enterprises (SMEs) via the suspension of business tax, interest payment holidays and grants. Mortgage lenders in the UK have agreed to be flexible and some £3.5 billion[9] has been made available to the devolved administrations in Northern Ireland, Scotland and Wales.

In France, the government has pledged to cover utility bills, social security payments and rent for the worst affected, as well as providing childcare for healthcare workers. Taxis and hotels were also to be requisitioned as required. Going further than most, France has embarked on a live experiment: it is targeting its support for businesses to maximise the preservation of jobs, rather than simply accept the job losses and support the newly unemployed. The theory is that the economic recovery should be faster if businesses are not allowed to go under in the first instance. In 2008, France did not work hard to support its workforce and unemployment remained at 10% for the next 5-6 years. Germany, on the other hand, which in 2008 used *Kurzarbeitergeld* – translating as short-term worker money – managed to keep businesses afloat and saw unemployment fall rapidly from 2010 onwards. So far, ten million have applied for *Kurzarbeitergeld*. This time around, Austria, Denmark and the UK have all announced their own versions of support measures that are similar in spirit.

In the US, where employment law is one of the most flexible in the world, we have already seen (as at 9 May) over 40 million[10] file for unemployment benefits.

[3] U.S. Congress archives www.congress.gov/bill/110th-congress/house-bill/5140

[4] Source: U.S. Treasury www.treasury.gov/initiatives/financial-stability/TARP-programs/pages/default.aspx#

[5] Source: United States Government Publishing Office https://www.govinfo.gov/content/pkg/BILLS-111hr1enr/pdf/BILLS-111hr1enr.pdf

[6] Sources: U.S. Treasury, CARES Act https://home.treasury.gov/policy-issues/cares
Wall Street Journal Public Resources https://s.wsj.net/public/resources/documents/STIMULUSBILL0325.pdf?mod=article_inline

[7] 24 April 2020 supplementary added to the Small Business Loan fund – the first tranche of US$350 billion ran out in weeks

[8] Not approved at time of writing.

[9] Source: Gov.UK. https://www.gov.uk/government/news/chancellor-announces-additional-support-to-protect-businesses

[10] Source: US Department of Labor News Release, 28 May 2020 https://www.dol.gov/sites/dolgov/files/OPA/newsreleases/ui-claims/20201122.pdf

Government overreach

It is very clear that those governments with very intrusive regulations and tools to track and monitor citizens' movements are best placed to deal with a pandemic situation. Many governments, including Italy, Hungary, Spain, France, Poland, Bulgaria, Portugal and the United States, are using this opportunity to centralise power and suspend citizens' privacy to fight COVID-19. The UK has avoided the issue by introducing 'emergency powers'. After this pandemic, the level of government intervention may never revert to what was previously known as 'normality'. Some leaders are clear on their own ambitions for continued centralisation of power and their view that checks and balances on privacy are inconveniences. The public sector will in many cases become much bigger in the economy, as whole industries may be quasi-nationalised, such as the British railways, which the government has essentially nationalised under emergency measures, with potentially more to come.

For countries that are run on a federal model, the challenges to this impulse are structural. In the United States for example, successive efforts by various White House administrations to address politically thorny issues such as healthcare have failed – even relatively uncontroversial proposals to provide funding to close the broadband gaps which would boost educational programmes and improve productivity have foundered. Today, over 21 million[11] Americans still have no access to broadband. Perhaps the experience of COVID-19 and the requirement to boost economic recovery might help break the logjam this time.

In any case, as more students and remote workers come online during the population lockdowns, regulators will probably choose to override local net neutrality provisions and require carriers and other service providers to prioritise some types of traffic, including that supporting pandemic control efforts and online education, while limiting data flows related to entertainment.

Legal action

After weeks of isolation and social distancing, public health experts say widespread public health surveillance is the next stage of America's COVID-19 pandemic response. Court battles are likely to follow over the balance between preventing new outbreaks and protecting privacy rights, especially for phone-generated data on location tracking.

Taxation

The importance of tax revenues for governments has been inexorably rising. The Organisation for Economic Co-operation and Development (OECD) average[12] stands at 34.2% of GDP for 2018. For reference, the UK is around the OECD average, while the US is at 27% of GDP, probably because this number does not account for state-level taxes.

There is, however, a big difference in the rate of tax collection – most developed countries' tax revenues are at 37.75% of GDP whereas emerging countries' average is 20.5%[13].

Given their increasing importance, tax revenues have become priorities for most governments. The numbers that they are looking at are based on work done by the United Nations University World Institute for Development Economics Research, in partnership with the International Centre for Taxation and Development (ICTD).

Taxing the multinationals and technology giants

2020 is the deadline set by the OECD, which has been overseeing multilateral talks, to come up with an agreement on tax treatment of multinationals and tech giants. The G20 recognised the growing anger at perceived tax avoidance internationally by these companies and tasked the OECD in June 2019 to develop a "Unified Approach" among its 134 country members. Today, the world's tax system for multinational companies looks completely out of date, having been set up in the 1920s, on treaty-based principles and relevant to manufacturers – no provision for service sector companies or those with intangible assets that are easy to move around geographically. The system favours the countries hosting headquarters and tax havens at the cost of countries where profits are generated. The United States has been a reluctant reformer historically, because most of these companies are American and it hasn't helped that the subject matter of international corporate law is horrendously complicated. The concept of transfer pricing looks to be under threat, but a messy compromise is the most likely outcome, raising less revenue than perhaps should be possible, due to the vested interests involved.

[11]Source: Federal Communications Commission Broadband deployment report 29 May 2019.

[12]Source: OECD Global Revenue Statistics Database https://www.oecd.org/tax/tax-policy/about-global-revenue-statistics-database.pdf

[13]Source: Martin Currie proprietary country risk framework, World Bank 24/01/20.

Debt and Wealth Taxes

It is abundantly clear that all countries will come through this global recession with significantly higher public debt. That will come with increased fiscal deficits that require long-term financing. The developed world was already struggling with low birth rates and hence faces the certainty of shrinking working populations over the next generation. In the meantime, governments looking for sources of financing will see private sector companies that are also carrying increased debt burdens, many will surely default or come close, shrinking the potential tax base further. By a process of elimination, this exercise leads inexorably to higher personal taxes. With the generalised resentments caused by a decade of austerity following the global financial crisis of 2008–2009, it seems unlikely that governments of any colour could seriously contemplate not taxing 'the wealthy'.

In most of the developing countries, citizens historically paid relatively low tax rates and had minimal expectations of government services, including healthcare. Thanks to a combination of demographics, improved educational attainment and the growth of the middle-income segments of the populations, a new voter base has emerged. These voters are younger, better informed, more demanding and less loyal than their parents' generation and some of their demands focus on value for money in terms of tax paid and quality of life achieved. As a result, governments are increasingly forced into investment in services, raising the dependence on tax revenues.

Much has been written and argued about wealth taxes – suffice to say that the average tax burden in the OECD[14] currently stands at 34.3% of GDP, with tax revenues from income and profits the biggest component, at 11.5% of GDP.

We do have two relatively recent examples of the implementation of a wealth tax in France, from 1982 to 1986 and then again from 1988 until 2017. The wealth tax was set at around 1.4% on fortunes over US$14 million. The revenues were disappointing, largely because thousands who fell into that category simply moved abroad. The Supertax launched by Prime Minister Hollande in 2012, in the midst of the austerity that followed the global financial crisis, was a 75% levy on incomes of over €1 million. Although this ended up proving a political point, rather than raising revenues. Several high-profile French people publicly revolted – iconic actor Gerard Depardieu took on Russian citizenship and billionaire Bernard Arnault allegedly became a Belgian national. The tax was withdrawn after two years.

Perhaps the cost of moving domicile was not high enough. Moving to Belgium means still being able to travel freely and have business interests in the EU, until the EU as a whole standardises its taxation policies and thus raises the penalty for non-compliance.

Most countries cannot raise the cost of non-compliance to this type of measure with confidence and in any case the rich already have their capital safeguarded in tax havens via corporations and trusts that guarantee non-disclosure.

If such a policy were to be implemented in the US, it might arguably be more effective given the cost of not operating in this big market begins to look high enough to matter.

> *With the generalised resentments caused by a decade of austerity following the global financial crisis of 2008–2009, it seems unlikely that governments of any colour could seriously contemplate not taxing 'the wealthy'.*

[14]Source: Organisation for Economic Co-operation and Development. https://www.oecd.org/tax/tax-policy/revenue-statistics-2522770x.htm

Cracking down on tax avoidance is part of the solution

The United Nations University World Institute for Economic Research (Cobham & Jansky 2017) reports[15] an estimate of global revenue losses of around US$500 billion annually in lost corporate tax revenue. Furthermore, the greatest intensity of losses occurs in low- and lower middle-income countries, and across sub-Saharan Africa, Latin America and the Caribbean, and South Asia. For developed countries, the problem is often extreme tax efficiency on the part of multinational corporations with corporate entities across the world.

Individual tax avoidance is enormous. According to the European Commission's Directorate-General for Taxation and Customs Union[16], global offshore wealth is estimated at US$7.8 trillion or 10% of world GDP. The EU share is estimated at US$1.6 trillion. There should be no surprise that the long history of blind eye turning may finally be at an end. One area to watch will be the behaviour of countries that have set themselves up as enablers of financial secrecy. The largest globally are the Cayman Islands, the United States (through allowing private foundations without disclosure), Switzerland and the UK (along with its network of satellite jurisdictions in the Overseas Territories and Crown Dependencies, where it has full powers to impose or veto law making). The newly urgent need to raise funds may yet prove to be the driver for reform in financial secrecy.

Modern Monetary Theory: An idea whose time may have come

Modern Monetary Theory (MMT) holds that a country with its own currency cannot physically run out of money since it has the ability to print more. So, it's not obliged to issue bonds to finance spending. This simplistic definition is easy to criticise because it suggests that governments never have to pay for things and increasing the money supply in this way could ultimately lead to hyperinflation. Proponents say they can use interest rate policy to prevent such an outcome.

However, not every country in the world can try to print its way out of a debt pile. One reason is that not all countries have a currency that is widely used as a reserve currency. Another is that sometimes countries require external financing in a structural way. For example, the Australian banks have long outgrown their deposit base, so they are obliged to borrow abroad. But it may be possible to replicate the benefits of not paying off the debt, as in Japan, where government debt was already 236%[17] of GDP before the COVID-19 stimulus.

Importantly, debt issued by Japan is mainly held by Japan – indeed, over half the government bonds in issue are held by the Bank of Japan. The opposite case would be Greece, where the equivalent number is 177% (and Italy 135%[18]); these countries are members of the EU and as a result do not have this option, unless Brussels obtains a paradigm-setting agreement to mutualise European countries' debt. One indicator that this may become a possibility is the push for the EU's new Green Deal, aimed explicitly at overhauling the European member state economies and impose 'green values' on others, which is clearly not a foregone conclusion.

[15]Source: Cobham, Alex & Jansky, Petr. Global distribution of revenue loss from tax avoidance. United Nations World Institute for Development Economics Research (2017). https://www.wider.unu.edu/sites/default/files/wp2017-55.pdf

[16]Source: European Commission. Estimating International Tax Evasion by Individuals. https://ec.europa.eu/taxation_customs/sites/taxation/files/2019-taxation-papers-76.pdf

[17]Source: Martin Currie Country Risk Framework, March 2020.

[18]Source for both Greece and Italy: Martin Currie Country Risk Framework, March 2020.

THE AFTERMATH IN VIDEO

Who pays for COVID-19?

Kim Catechis and Michael Browne, Portfolio Manager, European Long/Short discuss the impact of COVID-19 on global taxation requirements.

Click here to watch the video >

SOCIETY

Trust in the social contract

Citizens in most countries have been accustomed to think that they have a type of social contract with their governments; they pay taxes, obey rules and in exchange they get stability, economic and social security and healthcare and education services. After this pandemic, the world will be divided into three groupings:

- Those governments that went on a 'war footing' early and aggressively tested and isolated the population in order to control the spread of infections, with a consequent erosion of economic activity, but lower impact from the pandemic.
- Those that sought to downplay the dangers and prioritised the economy, accepting a higher human cost.
- Those that switched from the 'slow lane' after it became clear that they had underestimated the rate of infections and the high likely human cost – leaving them open to charges of indecisiveness.

Clearly, we cannot prejudge the outcome, but it would seem at first glance that populations may find it harder to forgive those who vacillated than those who were decisive, using the next available elections to punish or reward.

Notable elections scheduled in 2020

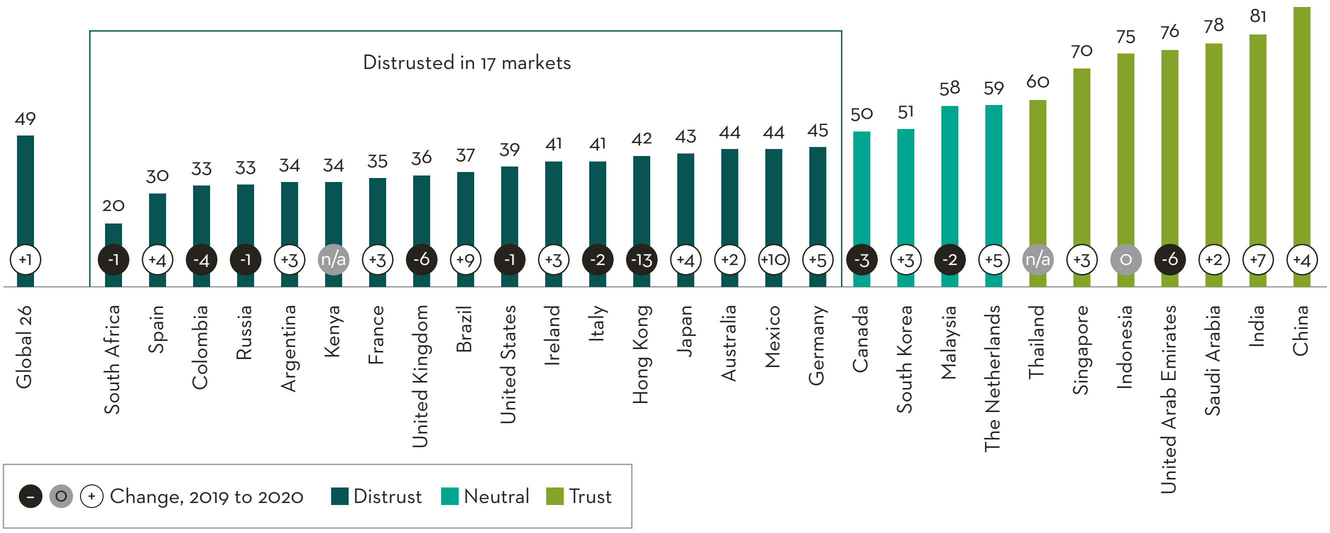
Country	Election	Date	Comment
Poland	Presidential	10 May 2020	Outcome: Poland's incumbent nationalist president, Andrzej Duda narrowly beat challenger Rafal Trzaskowski.
New Zealand	House of Representatives	19 Sept 2020	Delayed to 17th October
Hong Kong	Legislative Council	6 Sept 2020	Postponed to 5th September 2021
Italy	Constitutional Referendum	20 Sep 2020	Referendum passed – To reduce 630 Deputies to 400 and 315 Senators to 200
Nigeria	Gubernatorial	4 & 11 Oct 2020	Confirmed
Lithuania	Parliamentary	11 Oct 2020	Confirmed
Chile	Referendum	25 Oct 2020	Postponed from April – On rewriting the constitution, in response to October 2019's protests and civil unrest
United States	Presidential Senate/Congress	3 Nov 2020	Confirmed
Romania	Senate & Deputies	6 Dec 2020	Confirmed

Source: National Democratic Institute (NDI).

In this environment, most countries are understandably delaying the confirmation of election dates for this year. It is notoriously difficult to forecast results, but in Europe at least, polls suggest that populations have generally backed the measures taken to shut down the economies. So, if the EU emerges from the pandemic and the economy starts to work again, there would seem to be little room for anti-establishment movements.

Levels of national trust inequality

(percent trust in government)



Source: Edelman. 2020 Edelman Trust Barometer.

However, there appears to be an overriding belief that society and the prevailing economic systems need to be overhauled with urgency. Does this create conditions that might favour unscrupulous populists? Some would argue it has always been thus, but the Edelman Trust Barometer[19] says that in the twenty years of running this survey in 26 countries, the gap in the level of trust in governments between the informed population and the mass population has never been higher.

Edelman conducted a 10-country study in March 2020 on the coronavirus, which found that

1. The most credible source of information on COVID-19 was the employer
2. Scientists and CEOs were considered the most trustworthy spokespeople
3. There were high expectations of business to act
4. "My employer is better prepared than my country"
5. Employers must share information

[19]Source: Edelman Spring Survey 2020 https://www.edelman.com/research/edelman-trust-covid-19-demonstrates-essential-role-of-private-sector

Trust inequality sets new records

2020 Informed population	
65	**Global 28**
90	China
87	India
82	Indonesia
80	Saudi Arabia
78	Thailand
75	United Arab Emirates
71	Mexico
71	Singapore
68	Australia
68	Malaysia
67	Canada
67	The Netherlands
64	Germany
64	Italy
63	France
62	Colombia
60	Argentina
60	Brazil
60	Ireland
59	Spain
58	Kenya
57	United Kingdom
54	Hong Kong
53	Japan
53	United States
50	South Korea
49	South Africa
41	Russia

2020 Mass population			Trust gap
51	**Global 28**		14
77	China		13
74	India		13
70	Indonesia		12
64	United Arab Emirates		11
62	Thailand		16
60	Singapore		11
59	Saudi Arabia		21
58	Malaysia		10
58	Mexico		13
57	The Netherlands		10
56	Kenya		2
52	Colombia		10
51	Canada		16
49	Brazil	>	11
49	Hong Kong		5
49	South Korea		1
48	Argentina		12
48	Italy	>	16
45	Australia	>	23
45	United States		8
44	Germany	>	20
44	South Africa		5
43	Ireland	>	17
42	France	>	21
42	Japan		11
42	Spain	>	17
39	United Kingdom		18
27	Russia	>	14

Distrust Neutral Trust > Record trust inequality

Source: Edelman. 2020 Edelman Trust Barometer.

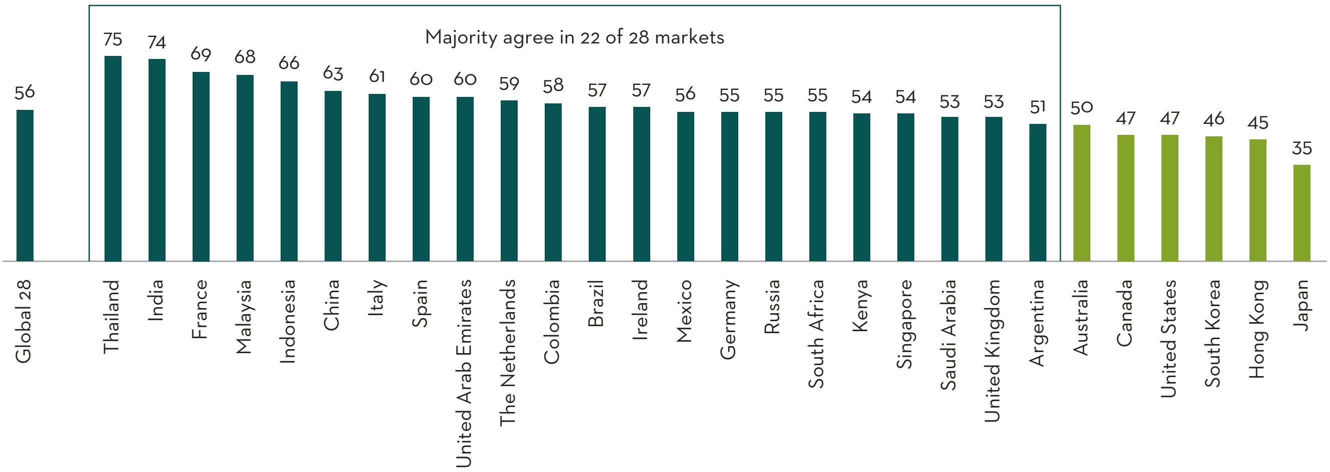
The starting point is that populations around the world are generally not persuaded that the status quo is working for them; according to the latest Edelman Trust Barometer[20] (January 2020), a growing sense of inequity is the driving factor behind an erosion of trust in governments. In developed markets particularly, income inequality is cited as a key preoccupation, along with a conviction that capitalism in its present form is doing more harm than good in the world. This view is subscribed to by 56%[21] of respondents, with minimal variation by age, gender or income groups.

[20] Source: Edelman. 2020 Edelman Trust Barometer. https://www.edelman.com/trustbarometer

[21] Source: Edelman. 2020 Edelman Trust Barometer. https://www.edelman.com/trustbarometer p.65

Capitalism in question around the world

(percent who agree Capitalism as it exists today **does more harm than good**)



Source: Edelman. 2020 Edelman Trust Barometer.

The backdrop to this increasing level of distrust, a rising dissatisfaction with capitalism and the questioning of economic incentives is a profound fear of the future. A clear majority (83%[22]) of respondents say they fear losing their job – citing a variety of reasons, from the gig economy, immigration, offshoring, technology, automation or a lack of skills.

Governments of countries with already high levels of inequality, formal unemployment and low levels of education will find themselves challenged by semi-permanent social unrest, perhaps even revolution. The chances of serious civil unrest are higher where citizens do not trust their government and external factors such as COVID-19 and/or low oil prices place additional strains on the economy. These characteristics are true for a significant number of countries, from Iran, to Russia, to India and the Gulf states, as well as those in Central America. For some countries, such as India, Pakistan and the Gulf states, their marked gender imbalances and domestic and regional sectarian conflict are additional and potentially potent drivers of instability.

Another inexorably approaching threat is automation (which is covered in greater detail in this paper's section on Industry). Suffice to say, that in the ASEAN region alone, the International Labour Organisation (ILO) estimates that 56%[23] of all employment is at high risk of displacement by automation. This disproportionately affects women and lower-skilled workers, which does not bode well for social harmony in these countries.

Overlaying the negative impact of climate change, food price inflation (which is particularly relevant for developing countries) becomes a key metric for gauging social stability. History shows that people will step up and defy even the most brutal repression when they feel they have nothing to lose. Feeling unable to feed their families hits that mark every time.

The most immediate way for these governments to avoid the confrontation in the short term is to demonstrate competence in dealing with COVID-19. Many, however, will simply choose to deflect the domestic discontent through propaganda, perhaps by vilifying an external enemy. In mainly developed countries, the lack of trust in governments is a significant driver for a change in policy orientation, resulting in higher regulation and more visible attempts at wealth redistribution. In some countries this process may drive significant changes in budgetary priorities over the short term.

[22]Source: Edelman. 2020 Edelman Trust Barometer. https://www.edelman.com/trustbarometer

[23]Source: International Labour Organisation (https://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---act_emp/documents/publication/wcms_579554.pdf)

THE AFTERMATH IN VIDEO

Eroding trust in the social contract

Kim Catechis and Will Baylis, Portfolio Manager, Martin Currie Australia discuss if trust in companies, brands and governments is going to be a major issue post COVID-19, and what that means for investors and stakeholders.

Click here to watch the video >

COVID-19 is not an equal opportunities pandemic

Inequality, in general, is a function of the capitalist system, which most of us are brought up to accept. My Irish grandfather was a farm labourer. He told me to 'pay attention at school and get an indoor job'. My parents had useful reflections, like 'money isn't everything' but no-one around me ever questioned the socio-economic inequalities.

My training and early years as an investment manager were exclusively focused on company accounts. Fast forward to 2020, however, and with the recognition of the acute and wide-ranging inequalities in society, investment managers have to think even more broadly about these societal influences on their decision making.

One of the issues that has arguably made some of the most progress has been the cause of gender inequality. In developed countries, legislation has cemented the safeguards of female employees in the workplace and of women in society in general. But even here, with these safeguards, COVID-19 will still prejudice women disproportionately more than men, most commonly via loss of employment. Often in economic recovery cycles, women's job opportunities tend to come with a time lag, essentially making them an involuntary labour reserve.

Where progress is most vulnerable to setbacks is precisely in the regions showing the fastest improvement, namely the developing world. In poorer countries, low-income families form the majority of the population and are often dependent on daily earnings for their immediate survival. In that context, the more family members that can work, the better because the household earnings go up. Cultural traditions are hard to break. In many African and Asian societies for example, families tend to prioritise boys over girls. It is thought that boys find work more easily, generate earnings and when they marry, they will stay near the parents, whereas in many cultures, the girl requires a dowry and will eventually leave to live with and look after her parents in law.

In times of good economic growth, jobs are plentiful and the idea of keeping children at school for longer is easier to sell. However, COVID-19 destroys all that, as the day-to-day struggle for subsistence remains. Finally, the pandemic potentially never leaves, as the densely populated favelas, townships or slums make social distancing impossible and washing your hands is tough when there is one communal water tap for a whole neighbourhood.

Faced with shrinking food budgets, the female members of the family will often go hungry before the male members. Girls will be taken out of school early and are likely to be married-off sooner, extinguishing their already limited horizons. Finally, these young women will end up having children earlier and having to look for work afterwards. Typically, they would be prized workers in manufacturing companies – after all, they tend to be more conscientious than the men, accept lower pay and show lower levels of absenteeism. With the inexorable approach of automation, however, even this area of work would seem to be endangered – and that early departure from formal education complicates retraining. Sadly, in spite of the primary focus on the health impacts of the pandemic, it is these structurally less obvious impacts that are more damaging in the long term. Unless there is a significant commitment to help them, it will be a further generation before the prospects for women and girls in many countries are tangibly improved.

This is a classic case of a clearly defined problem with many negative repercussions and no silver bullet. However, there is a wealth of knowledge on the subject, long evidence of palliative policies that work in practice. It is up to the governments and the multilateral organisations to keep this a high priority.

Healthcare at political front and centre

The obvious area of vigorous public debate in democratic countries in the immediate aftermath of COVID-19 will be over the perceived successes or failures of national healthcare systems. There are broadly three models in the world today, none of which was designed for a pandemic situation:

In most developing countries, there is private healthcare for the wealthy and minimal public service for everyone else. In the event of serious illness, the wealthy will typically travel to the nearest of North America, Europe or Singapore/Australia, demonstrating their trust in those countries' medical expertise over their own. In the historically oil rich Gulf states, it is common for the state to finance citizens' trips to Europe for medical reasons; this extends to a daily stipend for the living expenses of family members also travelling with the patient (although, in a world of US$30 per barrel oil, these practices may soon be reduced).

In European countries, there has long been a tradition of providing universal healthcare coverage, dating from the 1840s, with Britain, France and Germany as the foremost proponents. Today, all European citizens expect their national health service to look after them. The wealthy may choose to go to private clinics in order to reduce waiting times for non-urgent treatment, but in a time of pandemic, confidence in the public sector healthcare system is high.

The situation in the United States is more complex – there is clearly a fragmented healthcare system which can only be accessed by parts of the general population. COVID-19 will certainly reinforce healthcare's place at the centre of the ideological battle in domestic politics – and may even lead to a realignment of voters. The implications for the listed private sector companies are potentially bleak, given the country's historically high cost of medical treatment. However, memories fade quickly, so after the emergency subsides it would seem unlikely that the US changes in the short term.

In the US, where most hospitals are private companies, there is the added strain from the profit and loss statement. On top of the tremendous pressure to prepare and deal with the growing number of COVID-19 patients, they are also under tremendous financial strain. They are having to purchase new equipment to better resource their intensive care units (personal protective equipment and ventilators, for instance) but also pay high rates for contract staff such as pulmonologists, intensivists and nurses. To top it off, elective and emergent procedures have been delayed and mandated in many states, and this has shut off the single-most lucrative revenue stream for hospitals. The AHA (American Hospital Association) estimates that due to the cancellation of elective and non-essential treatments, non-federal hospitals in the US will lose US$161 billion over four months.[24]

[24]Source: https://www.aha.org/guidesreports/2020-05-05-hospitals-and-health-systems-face-unprecedented-financial-pressures-due. See section 4 - Independent hospital association AMGA, in a letter to the US Congress, stated that 55% of its members have cash reserves of less than six months (pdf available). © Used with permission of American Hospital Association.

THE AFTERMATH IN VIDEO

Healthcare implications of COVID-19

Kim Catechis and Sam Cottrell, Investment Analyst for our Global Long-Term Unconstrained strategy discuss the healthcare implications of COVID-19.

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Looking globally at potential changes as a result of COVID-19, it seems clear that the rapid establishment of telemedicine surrounding the crisis will likely take root and become a more entrenched part of provision in the future. This could have knock-on effects for the traditional referral paths for surgical procedures. Reliance on imports for certain key pharma and testing components has also been identified as a risk and this supply chain fragility needs to be understood and addressed.

Meanwhile, the caseload of regular health checks that have been missed will naturally lead to long delays in diagnoses, which in many illnesses such as cancers can significantly erode survival rates. It is estimated that the European healthcare systems will take 6–9 months to get back to capacity for what was previously considered 'normal' treatments.

Mental health

The 'accelerator effect' of COVID-19 will prove particularly damaging in the area of mental health. The relatively rapid rate of urbanisation across the globe has often been cited as one of the drivers of certain types of mental health conditions. Even in normal times, for young people leaving families in rural areas and moving to impersonal cities for further education or work can be very stressful, exacerbated by the more negative effects of social media.

After the experience of COVID-19, pre-existing conditions may be exacerbated. Loneliness, anxiety and depression during periods of enforced limitation of movement, despair at treatments for chronic physical conditions being postponed, post-traumatic stress disorder (and not only for front line medical professionals) will likely take time to manifest themselves completely, but the social and economic cost will grow unhalted for some time.

For many, the sustained stress of uncertainty over job security and the consequent lack of cash flows, health security and insufficient savings may become triggers for hitherto controlled mental health conditions.

Pre-existing conditions are expected to accelerate and intensify and conditions such as anger management or addictions such as alcoholism clearly make the sufferer a danger to other household members, perhaps ending efforts to control and assuage them. Unfortunately, the nature of these illnesses is often tough to diagnose in normal times, so there may well be an increase of cases over a long period of time, adding strain on the capacity of the relevant health systems.

The 'accelerator effect' of COVID-19 will prove particularly damaging in the area of mental health.

Remittances & economic migration

Along with the erosion of trust discussed above, societies around the world demonstrate a growing intolerance and a rejection of 'others' – these trends will deepen because of the pandemic. The impacts of this are significant on many countries. Migrant workers who leave their country of origin to obtain work and send money home to support their families, stand to lose out. The 12 main migration corridors are set out below, ranked by numbers of migrant workers[25].

The main global migration corridors (by numbers of workers) as at April 2018

Corridor	Migrants (000s)	Remittances $ mm
Mexico – US	11,573	34,704
Russia – Ukraine	3,309	2,502
Ukraine – Russia	3,272	7,870
Bangladesh – India	3,139	4,593
Kazakhstan – Russia	2,562	395
India – US	2,434	12,737
India – UAE	2,434	18,529
Russia – Kazakhstan	2,411	1,866
China – Hong Kong	2,343	16,340
Afghanistan – Iran	2,325	287
India – Saudi	2,266	11,668
China – US	2,130	14,252

Source: World Bank, Knomad Database (as at April 2018), accessed 14th September 2020 https://www.knomad.org/data/migration/emigration

Along with the erosion of trust discussed above, societies around the world demonstrate a growing intolerance and a rejection of 'others' – these trends will deepen because of the pandemic.

[25]Source: World Bank. Knomad Database (as at April 2018) accessed 14th September 2020: https://www.knomad.org/data/migration/emigration

The emigration countries

The top emigration countries stand to lose significant remittances every year as COVID-19's impact on business is felt and fearful societies become less open to migrants in general. It is, however, important to have a sense of the magnitude of population movements, before addressing the cash transfers. In terms of people flows, the countries that provide the most migrant workers to others are below.

Countries providing the most migrant workers (2017)

Country	Migrants mm	Country	Migrants mm	Country	Migrants mm
India	16.4	Philippines	6.0	West Bank/Gaza	3.9
Mexico	11.9	Ukraine	5.9	Kazakhstan	3.9
Russia	10.9	Afghanistan	5.1	Romania	3.7
China	10.0	UK	4.8	Egypt	3.4
Bangladesh	7.8	Poland	4.3	USA	3.1
Syria	7.8	Indonesia	4.2	Turkey	3.1
Pakistan	6.2	Germany	4.1	Myanmar	3.0

Source: World Bank. Knomad 2017, https://www.knomad.org/data/migration/emigration

In terms of the absolute US Dollar value of remittances from migrant workers, the top receiving countries are below.

Countries that receive the largest remittances from migrant workers (2018)

Country	Remittances US$bn	Country	Remittances US$bn	Country	Remittances US$bn
India	$79.0	Vietnam	$15.9	Sri Lanka	$7.5
China	$67.4	Bangladesh	$15.5	Lebanon	$7.0
Mexico	$35.7	Ukraine	$14.7	Dominican Rep	$6.8
Philippines	$33.8	Indonesia	$11.2	S. Korea	$6.7
Egypt	$28.9	Spain	$11.0	El Salvador	$5.4
Nigeria	$24.3	Guatemala	$9.4	Hungary	$4.9
Pakistan	$21.0	Nepal	$8.3	Honduras	$4.8

Source: World Bank. Knomad 2018, https://www.knomad.org/data/remittances

Perhaps more importantly, there are a few countries for whom these remittances represent a third or more of GDP: Kyrgystan (35%), Tonga (33%), Tajikistan (31%) and Haiti (30%). It is important to remember, however, that any disruption to migration and flows of remittances is not only a threat to the migrants' home country's GDP, but also potentially a major disruption to 'collateral' business sectors, such as food and apparel retail, home improvements and housing markets. Because of the multiplier effect of cash sent home, it is not unusual for one migrant to be supporting three generations of family members via monthly remittances. These cash flows have been regular for so long, that interruptions will prove difficult to overcome for significant sections of these populations, who have no alternative sources of income.

The Gulf states model

The Gulf states have become a unique testing ground for the attempt to use commodities wealth to drive social spending, to ensure social acquiescence to traditionally hierarchical power structures. The local populations are generally small, and the government's largesse is extensive. The implication has been that the region hosts an enormous migrant worker population which is occupying skilled as well as semi-skilled and basic jobs.

Country	Population	Nationals	Foreigners	% Nationals	% Foreigners
Bahrain	1,423,726	647,835	775,891	46%	53%
Kuwait	4,082,704	1,222,837	2,859,867	30%	70%
Oman	4,414,051	2,344,946	2,069,105	53%	47%
Qatar	2,617,634	243,019	2,374,615	9%	91%
Saudi Arabia	31,787,580	19,863,975	11,923,605	62%	38%
UAE	9,121,167	947,997	8,173,170	10%	90%
Total	**53,446,862**	**25,270,609**	**28,176,253**	**47%**	**53%**

Source: Gulf Cooperation Council GCC-Statistical Centre; Sultanate of Oman http://gccstat.org[26]

A further complicating factor is that there is an acute gender imbalance within this population and the quality of life of these people is very bad by most standards. Individuals leave their homes in Pakistan, Bangladesh and India to spend many years working under tough conditions in the Gulf, often without returning for fear of losing their work visa.

They are typically kept in overcrowded camps with effective curfews and are now left to their own devices, as their jobs are terminated and they have to find their own way home. Riots have been frequent; their home embassies are closed, and they are increasingly desperate.

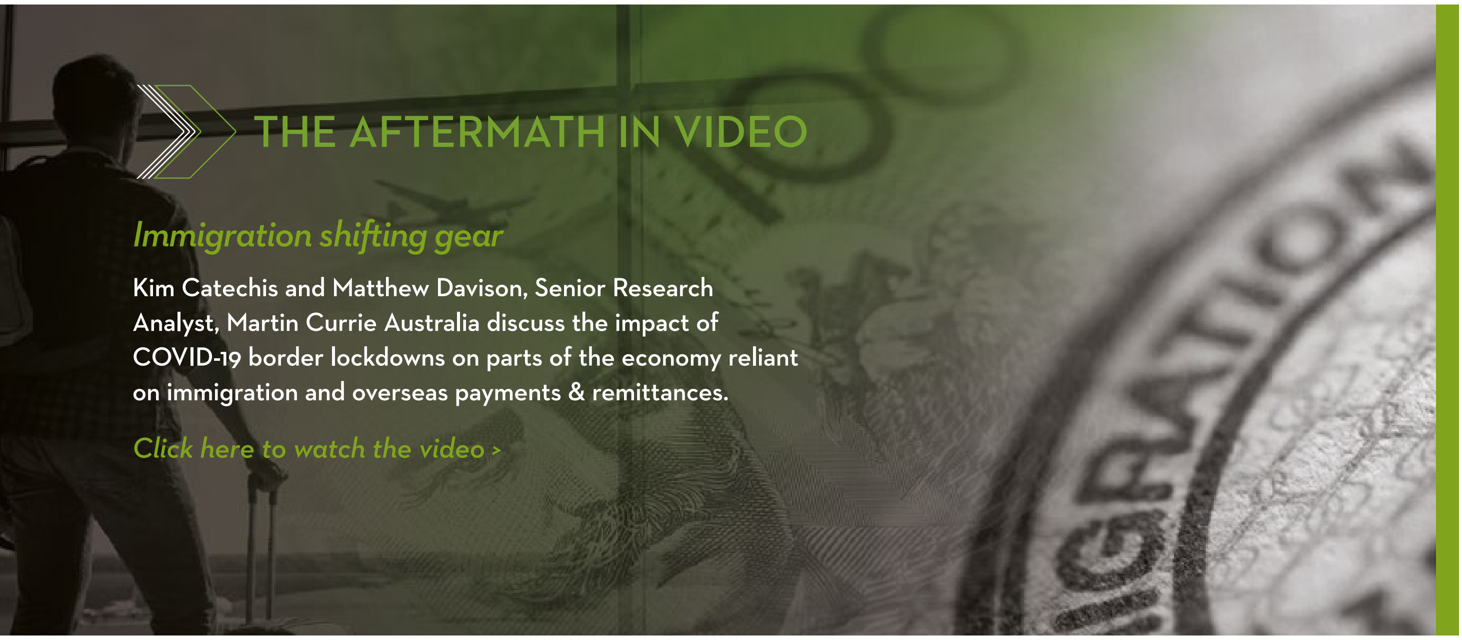
The Indian and Pakistani governments have appeared very reluctant and very slow to move – how this gets resolved will influence the future structure of the region's working populations. They clearly represent a potential source of social risk for the host countries who have no further use for them in the short term.

These workers are crucial pieces in the machinery of these economies. Without them there is a shortage of suitably skilled nationals to fill their posts – the unskilled workers are treated as essentially disposable, but many skilled foreign employees are particularly key in the Saudi Arabian private sector.

In spite of the economic power of the Gulf states and the relative poverty of Nepal, Bangladesh, India, Pakistan and the Philippines, the migrants' countries of origin can no longer ignore poor treatment of their citizens without significant fallout at home.

In short, the sustainability of the operating model of the Gulf states is being put into question. And although eventually automation may well diminish the number of migrant workers required, their relative skill level will rise, along with their aspirations.

[26]https://gccstat.org/images/gccstat/docman/publications/Report-Population_0.pdf



THE AFTERMATH IN VIDEO

Immigration shifting gear

Kim Catechis and Matthew Davison, Senior Research Analyst, Martin Currie Australia discuss the impact of COVID-19 border lockdowns on parts of the economy reliant on immigration and overseas payments & remittances.

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Crime

Cybercrime and the recruitment of vulnerable people hit hard by the recession are both intensified. On the other side, according to the UN Office on Drugs and Crime[27], production and distribution of drugs has been hit harder by the COVID-19 lockdown than any of the enforcement measures over the last decade. The abrupt stoppage in production has been matched by a crackdown on air and land routes. This has led to a change in consumption habits, where consumers have switched to using domestically available substances such as fentanyl (for heroin) and benzodiazepines. Sharing injecting equipment has also risen, with the corresponding risk of increased transmission of Hepatitis, HIV/Aids and even COVID-19. For the aftermath, this means 'older' societal healthcare concerns may re-emerge. In other areas of illegal activity, it may also prove to be a golden opportunity for organised crime to benefit from the recession, by buying businesses at low valuations, which can then be used for money laundering or even simple investment.

Insurance

As is often the case at times of large-scale destructive events, business executives read their policies with a higher degree of focus than when they signed them. They are looking for a clause that will cover them for loss of income. For restaurants, cafes, bars, retailers and others, this payout would mean the difference between survival and closure. In the US, insurers have so far refused to pay out under the 'business interruption' clause, on the basis that there must be physical damage. In a battle that will likely have far reaching impact, policies written in the years since SARS explicitly exclude viruses, but claimants point to the fact that COVID-19 sticks to surfaces for prolonged periods as evidence of physical damage. It's too early to calculate the exact extent of the payouts in question, but it seems logical to expect somewhere between a category-5 hurricane (In 2018-2019, extreme weather events amounted to US$136 billion[28]) and the asbestos litigation, which is still going after more than 30 years. The highest profile group of claimants is the Business Interruption Group[29] (BIG), countered by the insurance industry's Future of American Insurance & Reinsurance (FAIR). This is a battle that will run and run – and given the global structure of the industry, the impact will be felt across the world. Lloyds of London have estimated the 2020 underwriting losses from COVID-19 to be US$107 billion[30]. Including the anticipated losses of the investment portfolios, the total projected loss to the industry this year is US$203 billion.

[27]Source: https://www.unodc.org/unodc/press/releases/2020/May/covid-19-is-changing-the-route-of-illicit-drug-flows--says-unodc-report.html

[28]Source: Office for Coastal Management Facts on Hurricanes https://coast.noaa.gov/states/fast-facts/hurricane-costs.html

[29]Source: Business Interruption Group website https://werbig.org/

[30]Source: Lloyds of London Insurance press release (14th May 2020).
https://www.lloyds.com/news-and-risk-insight/press-releases/2020/05/covid19-will-see-historic-losses-across-the-global-insurance-industry

SECTORS

Telemedicine

Most countries have struggled with providing access to medical care for their populations. The traditional view is that there are not enough doctors to go around. In developed countries, the average is 3.4 physicians per thousand population[31]. In developing countries, the average ratio is 1.9 per thousand. These bare statistics, however, hide the reality that there are three broad models in the world. Firstly, the US model, where there is no universal coverage and the country's 2.6 physicians per thousand include the private practitioners who are earning a lot of money serving the glitterati of Los Angeles rather than the basic needs of rural communities. By contrast, the European model, which was built on the post-war reliance on the state provides free universal healthcare as a citizen's right. Finally, in most developing countries, citizens' expectations are extremely low, and the service is minimal.

Now though, across all of these models there is an opportunity to deliver medical diagnosis and advice to a wider proportion of the population very efficiently via online consultations, at least for general practice. The clear proviso, however, is government support; it will require a drive from the relevant health ministries in order to ensure prescription compliance and empowerment of general practitioners. Teladoc Health in the US may be one of many at the forefront of this move to remote consultations, although larger health service companies appear to be entering this field. The market worldwide is estimated at US$45.5 billion in 2019, according to Statista[32], who project it to nearly quadruple to US$175 billion in 2026.

Education

We are possibly at a once in a generation opportunity to finally democratise education by making high-quality teaching available to (almost) everyone in very short order. There are many options that are currently being used, with Firefly Learning used by my children's school and Google Classroom in others. There are many examples of innovative solutions developing, now that physical school attendance is not universal and broadband access is too expensive. In Mexico, teachers at public sector schools are using WhatsApp to send out homework tasks, while parents are sending back photos of the finished work via the same channel. Access to broadband remains a bottleneck, but the future expansion of 5G could well clear it in a cost-effective way.

In many ways, university (college) education is even more easily adapted to online tuition, whether via live webcasts or the use of recorded lectures. It is probably fair to say that the best part of the university experience will be lost, in terms of getting to know new people from different backgrounds to your own and creating lifelong friendships as a result. But in a world where the costs of going to college are often prohibitive, the online learning route would provide an opportunity to democratise further education. Moving online learning to the mainstream of tertiary education has clear implications on fee income. In the US, the UK and Australia, fee income from international students has been a key pillar of educational establishments' profit & loss statements. US colleges host over a million foreign students[33] who contribute US$45 billion to the economy and account for a mere 5.5% of the overall student population. Of these, around 350,000[34] Chinese students (a third of international students) at US colleges spent approximately US$ 15 billion[35].

The information provided should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that any of the security transactions discussed here were or will prove to be profitable.

[31]Source: Martin Currie Country risk Framework, World Bank Data.

[32]Source: Statista https://www.statista.com/statistics/671374/global-telemedicine-market-size/

[33]Source: Institute of International Education https://www.iie.org/Why-IIE/Announcements/2019/11/Number-of-International-Students-in-the-United-States-Hits-All-Time-High

[34]Source: Statista and Institute of International Education.

[35]Based on a third of international students contribution to the US economy.
Source: NAFSA https://www.nafsa.org/about/about-nafsa/new-nafsa-data-international-students-contribute-39-billion-us-economy

The situation in the UK and Australia is more acute: UK universities host 485,000 foreign students[36] who contribute £25 billion[37] and account for 19% of the student body and 27% of fees. Australian universities generate A$32.4 billion[38] from 758,154 students, representing 11%[39] of the student body. Some universities are particularly badly exposed. At the London School of Economics (LSE), international students are 70% of the student body[40].

If the places on campus are extremely limited due to social distancing, the universities will have to consider drastically increasing the number of students they take on and the establishment of short, intensive periods of campus-based teaching. This may mean relatively small numbers of students rotating through and still benefiting from the 'soft' learnings such as meeting new people and networking as well as getting to know different regions or countries and their cultures. In practice, there is a significant risk of this policy accentuating inequality in the student body. A student from an underprivileged background could struggle to find the physical space at home (or be assured of broadband coverage) and could lack the support to focus on study that a campus place provides. However, as most international students pay a premium of around 30% or more, the percentage increase may need to be significant. There are obvious implications for the choice of university – will this lead to some less-popular institutions being taken to the limit of their sustainability and possibly closing their doors?

Business norms

Given the plummeting cost of video conferencing and the exponential improvement in sound and picture quality, it seems that this could finally be the moment when executives make video conferencing the natural mechanism for contact with clients and suppliers. Commercial real estate may well be radically changed – concepts like WeWork (which provides shared workspaces) and its competitors could be much diminished if people begin to work remotely in earnest, requiring nothing more elaborate than meeting rooms on an occasional basis. The share price trajectory of video conferencing firm Zoom Technologies tells a story, but there are many more providers in this growing market.

Business travel will probably be greatly reduced with only the most determined salespeople persisting in the short term, once travel constraints are lifted. There are obvious knock-on effects for the transportation and lodging sectors. Large-scale conference venues will also probably take quite some time to recover and may well be overtaken by smaller venues in different cities as the memories of this pandemic start to fade.

Meanwhile, the appetite for large-scale high-profile events like the Olympic Games will be diminished. The Japanese government has warned that the Games may have to be cancelled next year if COVID-19 is not contained.

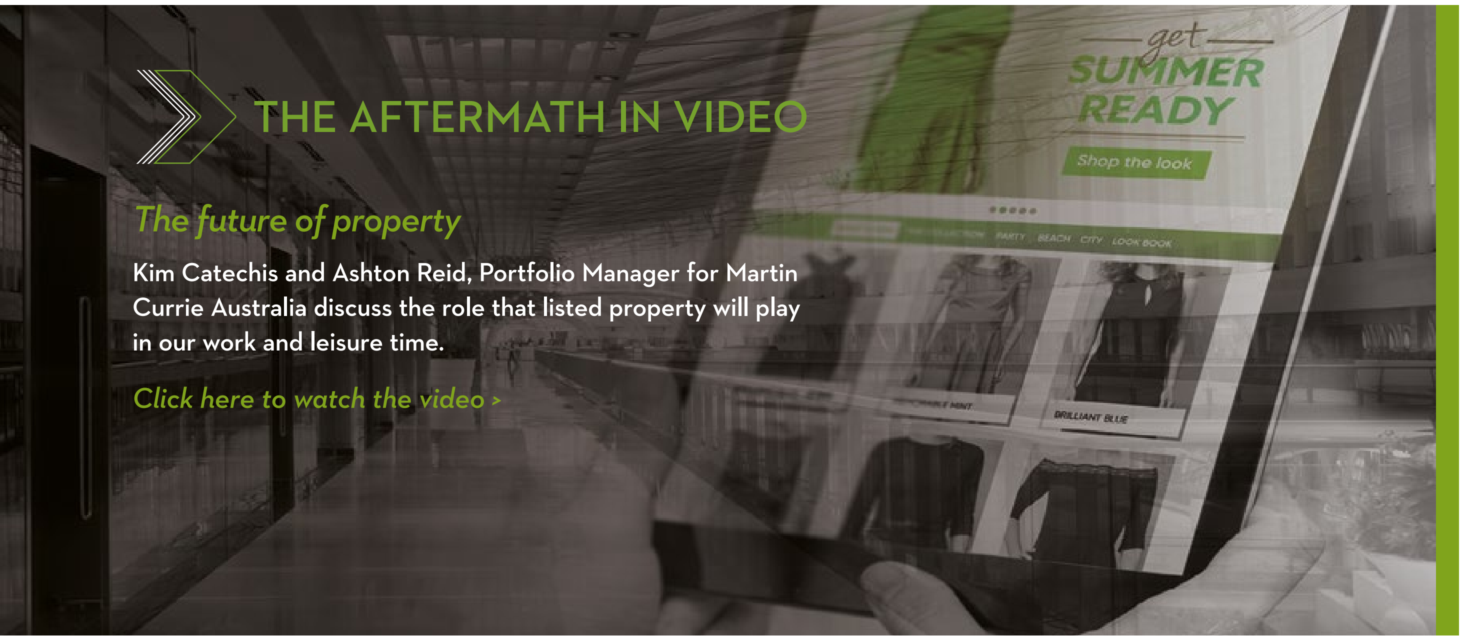
The information provided should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that any of the security transactions discussed here were or will prove to be profitable.

[37]Source: Universities UK https://www.universitiesuk.ac.uk/policy-and-analysis/reports/Pages/briefing-economic-impact-of-international-students.aspx
2014-2015 £25bn restatement in 2017: https://www.universitiesuk.ac.uk/policy-and-analysis/reports/Pages/briefing-economic-impact-of-international-students.aspx

[38]Source: Australian Bureau of Statistics (Australian Higher Education: A Quick Guide 20 June 2019).
https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1819/Quick_Guides/OverseasStudents

[39]Source: Australian Department of Education, 2018 Student Summary Infographic https://docs.education.gov.au/system/files/doc/other/2018_student_data_infographic.pdf

[40]Source: London School of Economics and Political Science, International Students, Frequently asked questions.
https://info.lse.ac.uk/current-students/your-first-weeks/international-students



THE AFTERMATH IN VIDEO

The future of property

Kim Catechis and Ashton Reid, Portfolio Manager for Martin Currie Australia discuss the role that listed property will play in our work and leisure time.

Click here to watch the video >

Flexible working

Following on this theme, the combination of higher-specification technology and reduced costs seem to have finally proved beyond doubt the case for remote working – until now only available to certain highly skilled and relatively highly paid workers, working remotely should now be available for a much wider set of businesses. At the risk of stating the obvious, there is no doubt that employer flexibility around home working can also be a useful way to help increase the diversity of a company's workforce, by attracting a wider variety of employees. In Germany, Federal Minister of Labour Hubertus Heil[41] of the Social Democratic Party (SPD) is submitting a new draft law to entitle anyone who can and wants to work from home, to work from home, even after COVID-19.

Many of us who work in cities have become accustomed to the idea that we would rather live in a smaller apartment that is near our place of work in the city centre, than a larger house in a more affordable location, to avoid the implied commuting time. If working from home is no longer viewed as a barrier to a fully functioning office or perhaps more importantly to the chances of promotion, more families living in the cities may choose to move to the countryside, with a suitably strong broadband connection, of course! There are positive implications for rural areas, which in many countries have been suffering decreasing populations and diminishing services as a result.

Of course, the trend from the millennials and generation Z is to go in the opposite direction, so there is an evident generational split in behaviours. For them and for businesses that must be in capitals or big cities, the option to rent smaller offices might appear the straightforward one – but it is likely that office workers insist on greater personal space to enable social distancing.

Tourism

This sector will be the biggest short-term casualty. For any country, tourism is a good sector because it generates large-scale employment without the need for significant skills and brings in valuable foreign currency. In the US, 80 million visitors generated US$256 billion[42] of revenues in 2018, accounting for over nine million jobs and 3% of GDP. According to UNWTO[43], the relationship between GDP growth and international tourism receipts is around 1.2 in the positive growth years. In 2009, the collapse in tourism revenues worldwide was five times the GDP contraction. All of that is now at risk. Europe is the most exposed, since the region accounts for over half the world's international arrivals and 40% of international tourism receipts. After the US, Spain (US$74 billion), France (US$67 billion), Thailand (US$63 billion) and the UK (US$52 billion), Italy (US$49 billion), Australia (US$45 billion), Germany (US$43 billion), Japan (US$41 billion) and China (US$40 billion) complete the top 10 positions in the world. All these countries will be hoping to reduce the down time before recovery. A useful point of reference is provided by history[44]: It took the UK tourism industry 35 months to recover from 2001's Foot and Mouth disease in cattle; 17 months for Singapore to recover from 2003's SARS epidemic and 10 months for Miami to recover tourist arrivals after 2016's Zika outbreak. It seems that recovery times from disease and political unrest take on average 19-22 months, whereas terrorism takes a year[45].

In a post-pandemic world, the concept of being in close proximity with thousands of other travellers may seem fanciful; if that is so, cruise companies face an existential threat. An estimated 30 million people travelled on a cruise holiday in 2019, generating US$150 billion[46] and employing over a million. The future may well see lower occupancy on cruise ships with expanded healthcare facilities, both of which will clearly add to the costs.

[41]Source: https://www.spiegel.de/politik/deutschland/heil-plant-bis-herbst-gesetz-fuer-recht-auf-homeoffice-a-06af277e-75f4-4a59-8963-0070d6c507bb

[42]Source: International Trade Administration. https://travel.trade.gov/outreachpages/download_data_table/Fast_Facts_2018.pdf

[43]Source: UNWTO World Tourism Organisation, https://www.e-unwto.org/doi/10.18111/9789284421152

[44]Source: Martin Currie Country Risk Framework, June 2020 file:///C:/Users/KimC.MCURRIE/Downloads/Crisis_Preparedness_Management_Recovery_Crisis_Readiness_Nov_2019.pdf
Source: Global Rescue and World Travel & Tourism Council: Crisis Readiness – October 2019. All rights reserved.

[45]Source: World Travel and Tourism Council. Crisis Preparedness Management Recovery –
Crisis Readiness' (16/11/2019) https://wttc.org/Initiatives/Crisis-Preparedness-Management-Recovery

[46]Source: Cruise Lines International Association.
2019 State of the Industry. https://cruising.org/news-and-research/press-room/2018/december/2019-cruise-travel-trends-and-state-of-the-cruise-industry-outlook

Transport

In both Europe and China there is an established drive from policymakers (supported by the majority of the population) to focus on transport as one of the relatively straightforward 'wins' in the campaign to reduce carbon emissions. It is clear that high-speed rail is significantly less polluting than air travel and although journey times are longer in most cases, the difference is impacted by the time spent transferring to and from the airports as well as the time spent waiting in the airport. In China, where the military formally control 80% of the country's airspace, delayed flight departures are very common. According to the US Department of Transportation[47], over 80% of flights from the top 30 airports in the US depart on time; but a 20% incidence of delay is not satisfactory. All this adds to the attraction of rail travel. In the UK, rail travel is notoriously anachronistic compared to the rest of Europe. There is no high-speed rail and as a result significant infrastructure spend is necessary. But in the world after COVID-19, that is exactly what will be needed to help boost the economy; a similar but perhaps less extreme logic applies in the rest of Europe.

Even though China leads the world in high-speed rail already with over 20,000 km of track, so far rail use only appears to have impacted reductions in road travel, not air. As that consumer demand for transport grows, it is expected to grow its rail passenger volumes significantly, forcing a plateau in the growth of domestic air travel.

In Europe there have long been surveys suggesting that business passengers are prepared to countenance longer trips by rail. Even after COVID-19, which will have the effect of lessening passenger density on rail, one driver that has been growing in importance is *flygskam*, the Swedish word for the concept of 'flight shaming'. Other languages have their own version, such as the Dutch *vliegschaamte*, the German *flugscham*, or the Finnish *lentohapea*. This is an expression of unease about flying felt by environmentally conscious people, and it seems to be gaining ground. If high-speed rail were made available, the number of like-minded travellers can reasonably be expected to grow significantly. An inevitable outcome will be surplus aircraft and, by default, the modernisation of fleets, reducing emmissions even further.

According to the air travel association IATA, 7.5 million flights were cancelled between January and July 2020 and lost revenues estimated at US$419 billion[48], down 50% on 2019. A number of airlines have already collapsed, including FlyBe (UK), Trans States Airlines/ Compass Airlines (US) in March, Virgin Australia, in April, Avianca of Colombia in May and Virgin Atlantic in August 2020. This is a sector which has consistently been treated as a symbol of national interest, there are over 1,000 airlines in the world, employing an estimated 72 million[49]. Yet with only a third of operating costs accounted for by staff, the high fixed cost base is structural deadweight, even with oil and jet fuel prices at 35-year lows.

Even after COVID-19, which will have the effect of lessening passenger density on rail, one driver that has been growing in importance is flygskam, the Swedish word for the concept of 'flight shaming'.

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[47]Source: www.bts.gov/node/224546

[48]Source: International Air Transport Association (IATA), June 2020. https://www.iata.org/

[49]Source: Statista. Transportation: Air. June 2020. https://www.statista.com/study/57207/transportation-air---global/

So, where does air travel go in future? The trend towards lower frequency of business trips will likely accelerate and leisure travellers may be slow to come back; in the interim, a large number of smaller airlines will have closed. The political muscle of the unions in the US will probably be successful at rescuing the big airlines; the Gulf governments will surely continue to support their flag carriers, as will China. The Europeans have some options, but it would seem counterproductive to persist with individual national airlines in this environment. There will ultimately be only three or four airlines operating out of Europe, maybe even less if the EU's Green Deal captures the public imagination, and increases sentiment such as flight shame. Airlines may run smaller fleets with more stopovers and cabin redesign may be necessary.

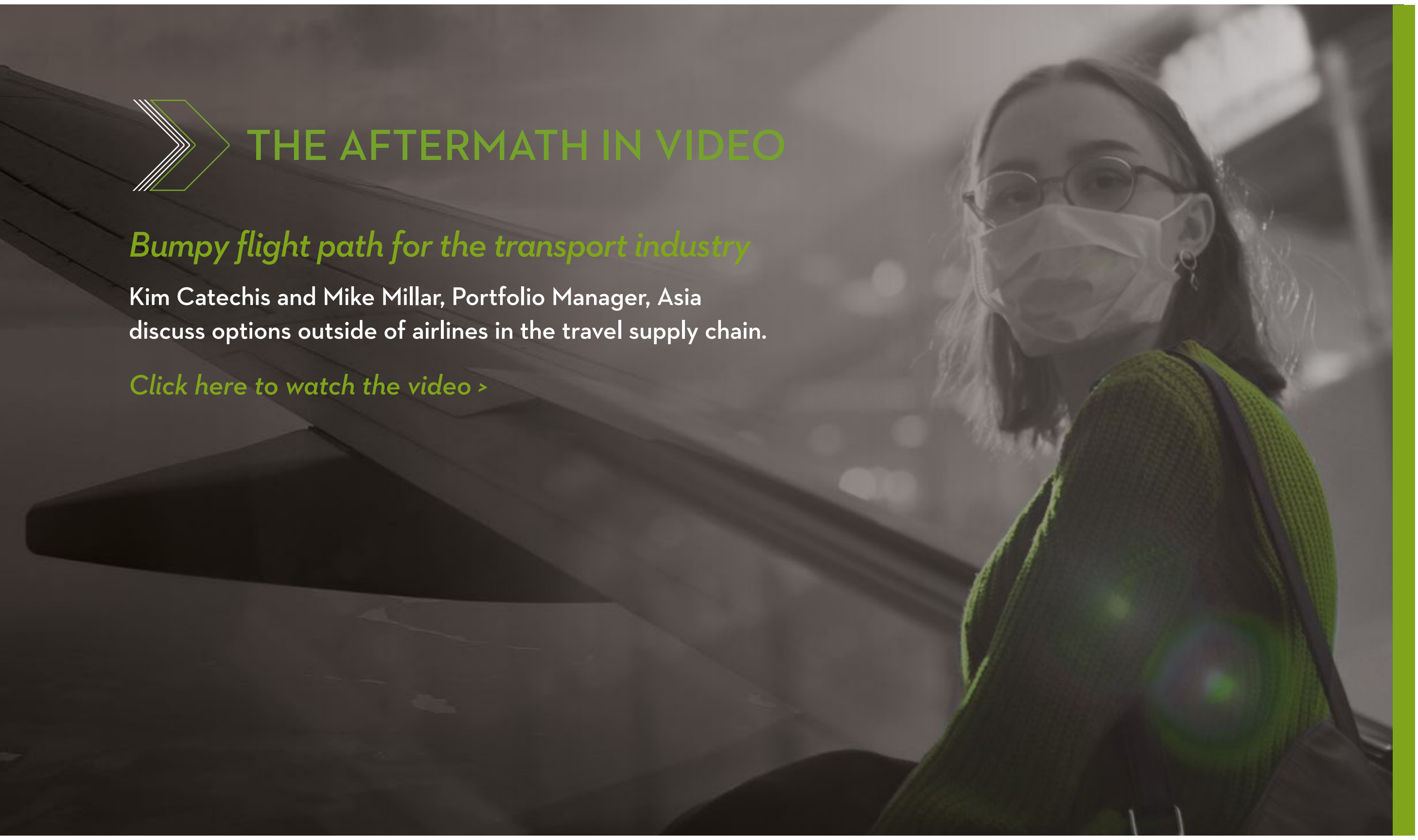
Another perhaps underexplored subsector is air freight. As passenger flights have been cancelled, the total air cargo space has shrunk with it, down by 23%[50] annually (as of March 2020) according to IATA. There has been an immediate impact on pricing, which is beginning to drive increased use of 'old-fashioned' road and rail freight. Using a variety of productivity models, Chinese and Russian freight rail has consistently proved very efficient. The recently established freight rail connection between Europe and China under the Belt and Road Initiative[51] has reduced journey times significantly but has struggled to attract the volumes required for optimal efficiency. With a squeeze on air freight costs and attractive journey times (18 days[52] between London and Urumqi), versus 6–8 weeks for the sea route, perhaps rail freight's moment has finally come!

For investors, the implications are clear: lower revenue growth at aircraft manufacturers, component manufacturers, (maintenance will be lower with younger, smaller fleets) airport operators and leasing companies, higher growth in rolling stock and rail-related component manufacturers.

[50]Source: International Air Transport Association (IATA). Air Cargo Market Analysis, March 2020.

[51]https://multimedia.scmp.com/news/china/article/One-Belt-One-Road/europe.html

[52]https://www.railway-technology.com/features/featureeast-wind-a-new-era-of-freight-between-the-uk-and-china-5740643/



THE AFTERMATH IN VIDEO

Bumpy flight path for the transport industry

Kim Catechis and Mike Millar, Portfolio Manager, Asia discuss options outside of airlines in the travel supply chain.

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Online consumption

Consumers across the world had already been inexorably moving away from physical retail shopping and into online shopping, as can be seen in quarter after quarter of retailers' results statements in the developed markets. The latest announcement of this trend is the statement from shopping centre/mall operator Intu, who announced[53] it would not be paying a dividend, after receiving only 29% of the rent it was due for the second quarter of this year. Even before COVID-19, retailers were looking for more favourable terms from their landlords in the face of reduced sales. Will the consumer return to shopping malls? It probably depends on where they live… We have already seen in other countries such as China, that the shift to online shopping is inexorable, the effect of COVID-19-induced lockdowns has merely demonstrated that it's easy and, in most cases, reliable. Given the excess inventory held by most retailers, we should expect to see a large-scale discounting exercise, probably followed by a much thinner field of competitors, at least in the early years.

Restaurants will find it advantageous to develop strong home-delivery franchises while dining out is viewed as too risky. Even if diners want to come back to their favourite haunts, it is likely that greater spacing of tables and reduced capacity render large swathes of the sector uneconomic and drive average prices upwards. One of the expected beneficiaries of the crisis, takeaway delivery firms such as Just Eat/Takeaway.com actually haven't fared as well as many anticipated. The consumer hasn't ordered takeaways but has cooked instead, leading to higher-than-usual sales at supermarkets. In the US, a June Yelp survey[54] found that of the 23,981 restaurants that were open and listed on the service on 1 March, 53% were permanently closed by 15 June. Many changed their operating model, offering takeout and delivery, as well as experimenting with curbside pick-up. Yelp have experienced a 10-fold increase in searches for takeout since 10 March.

The move towards more online shopping and home delivery could accelerate the use of commercial drones. In Japan and the US, their use has been growing exponentially since 2016, with the international market already developing in areas such as emergency relief, monitoring, delivery and mapping, to name just a few. The industry has moved on from experimentation to implementation and the current COVID-19 healthcare emergency will in all likelihood spur this market growth, driven mainly by related services, 5G adoption and software. Even before COVID-19, the market for commercial drones this year was expected to double to 634,000 units (a US$2.4 billion market)[55].

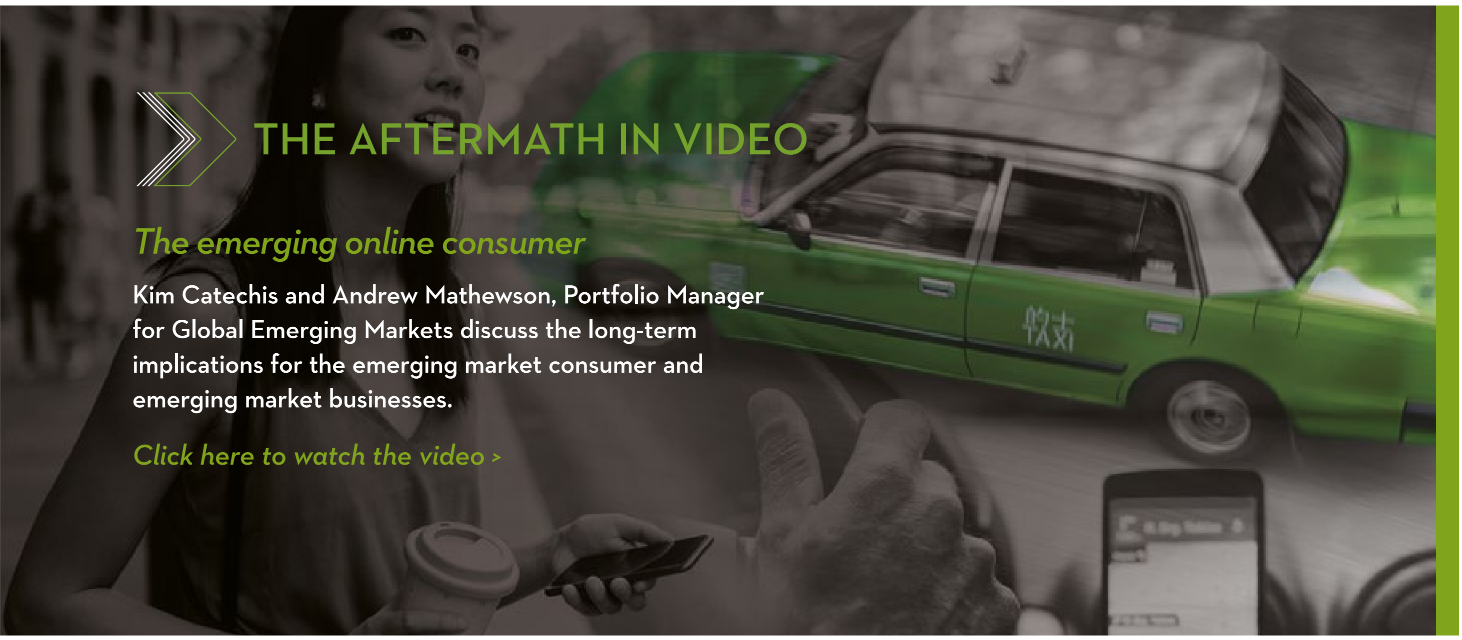
The logical knock-on effect could well be a civil aviation authority relaxation of the regulations governing drone use by commercial delivery firms. Clearly this is an area where legislation will drive the increase, probably without significant resistance.

The information provided should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that any of the security transactions discussed here were or will prove to be profitable.

[53]Source: London Stock Exchange. https://www.londonstockexchange.com/exchange/news/market-news/market-news-detail/INTU/14478230.html

[54]Source: Yelp: Local Economic Impact Report, June 25, 2020 https://www.yelpeconomicaverage.com/yelp-coronavirus-economic-impact-report.html

[55]Source: Statista, Tractica. https://www.statista.com/chart/17201/commecial-drones-projected-growth/



THE AFTERMATH IN VIDEO

The emerging online consumer

Kim Catechis and Andrew Mathewson, Portfolio Manager for Global Emerging Markets discuss the long-term implications for the emerging market consumer and emerging market businesses.

Click here to watch the video >

Industry

To illustrate the potential changes in industry, I would cite the old joke about the nature of the modern textile plant: there are only two employees monitoring the banks of machines in the new factory – a man and a dog. The man's job is to feed the dog. The dog's job is to keep the man from touching the machines.

The serious point here is that as a result of a combination of trade wars, COVID-19-related stoppages in production due to logistical failures, the 'just-in-time' manufacturing model may well have lost its attractiveness. Companies will therefore need to re-examine the benefits of holding some level of inventory on site – meaning a new source of demand for secure warehousing. Meanwhile, geopolitical frictions are likely to continue to escalate, speeding up the process of geographically diversifying value chains, which may result in some degree of onshoring. The degree to which onshoring is a realistic objective though, depends on a combination of availability of inputs to the existing supply chain (virtually everything we make in a given country currently depends on imported inputs from elsewhere) and cost (how much more expensive will it be before we change or minds?)

As a result, automation will likely seem more attractive: expensive to install, but predictable, consistent in production, eminently flexible and in the longer term, a tool to compensate for the loss of margin to the re-engineered supply chains. The effective deployment of 5G will help ensure its speedy adoption. With interest rates remaining low for the foreseeable future and increasing pressure from banks to lend, corporates who have shelved capex plans for the last few years will be tempted.

Evidently, hundreds of millions of jobs are at risk from increased automation and the stakes are highest in the poorest countries with the lowest educational attainment levels and highest dependency on labour intensive industries. The International Labour Organisation (ILO) estimates[56] that 56% of jobs in the five ASEAN countries of Cambodia, Indonesia, Philippines, Thailand and Vietnam are at high risk from automation.

For investors, the opportunities for these changes may lie in a combination of themes: subsectors of commercial property, logistics, online education, online shopping and delivery services, remote control systems and software, automated machinery and equipment, while nationwide 5G infrastructure buildouts would seem to be the necessary precondition. Given that even the prospect of building out domestic broadband infrastructure is inextricably entwined in the prevailing geopolitics of countries, this is addressed in more detail below.

To illustrate the potential changes in industry, I would cite the old joke about the nature of the modern textile plant: there are only two employees monitoring the banks of machines in the new factory – a man and a dog. The man's job is to feed the dog. The dog's job is to keep the man from touching the machines.

[56]Source: International Labour Organization https://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---act_emp/documents/publication/wcms_579554.pdf.

Trade becomes more regionalised

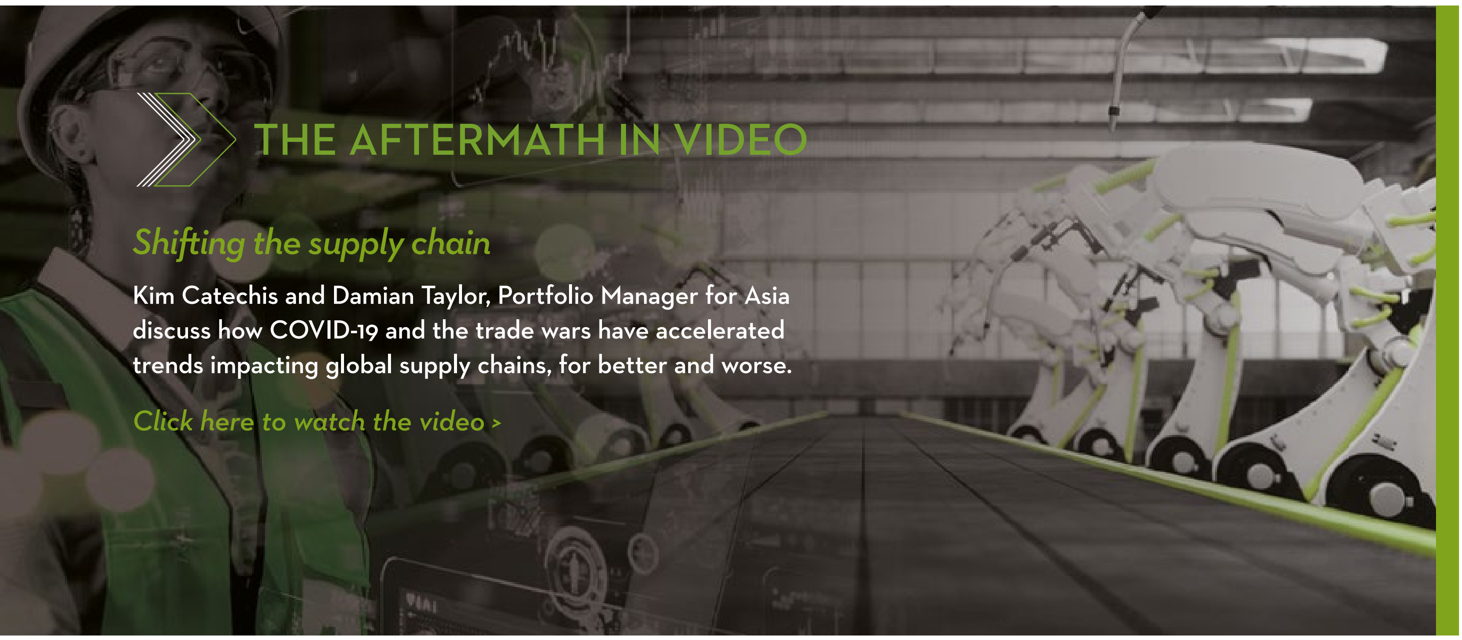
Even before the arrival of COVID-19, the trade wars launched by the Trump administration, coupled with its policy of inconsistent disengagement from the world was putting a strain on the multilateral organisations that enabled globalisation. The western world was already experiencing increased levels of government intervention and regulation in hitherto 'free' markets. Even the US had resorted to managed trade in its agreement with partners. The textbooks I learnt from said that this is incompatible with the essence of capitalist, free-market America, especially under a Republican administration, but life is often stranger than fiction.

There was a time when the definition of an optimum supply chain was simple. It was a formula that involved: price, specification, quality control, security of supply, and a dependable timeline of supply and profit margins worked out on the basis of long-term relationships along the value chain. At that time, a geographical spread was viewed as a positive and manufacturing companies developed razor-sharp processes that depended on just-in-time delivery. In the auto sector for example, it is still common to have assembly lines receive shipments of parts 45 minutes before they are needed. This meant that within weeks plants had to close down as components that were in transit arrived and no inventory was available.

Today, with the injection of politics in the formula, it seems that it is not just a logistical recalculation exercise. Companies have, through COVID-19, experienced the forced shutdown of plants because one component might not have been available, so the other 99% of the product components were rendered useless. In the new world, companies are less concerned with optimising profitability alone, as reliability and resilience are now higher priorities. It will be commonplace to build warehouses and keep inventory. All of this has negative implications for working capital commitments and for profitability, which is not yet incorporated in investors' financial modelling.

This new world will probably see less international migration, a higher degree of concentration of supply chains within countries or trade zones: American companies may fragment their supply chains so as to diminish concentration in China – there will now be a focus on regional diversity (as well as security) of supply.

The rush to localise industrial supply chains will reduce innovation and choice, as well as increase costs for the consumer. Unemployment may go up in the short term, again providing the temptation for governments to intervene. The soaring costs of shielding economic activity will have to be paid, most probably by individual taxpayers, for the next 50 years.



THE AFTERMATH IN VIDEO

Shifting the supply chain

Kim Catechis and Damian Taylor, Portfolio Manager for Asia discuss how COVID-19 and the trade wars have accelerated trends impacting global supply chains, for better and worse.

Click here to watch the video >

Communications technology – 5G

Last year, I wrote about the development of 5G telecommunications technology and its critical role in unleashing an unprecedented revolution in the world's manufacturing, logistics and supply across all industries. This is because the technology will enable much better remote control of industrial processes.

It is relatively easy to see why this particular technology matters more than the previous 'upgrades' to mobile telecommunications, such as 3G and 4G. What the market has come to expect is higher download speeds with each 'G', and the capability to move more data. Ultimately, 5G is going to be a rebuild, from the ground up, of our mobile communications architecture. The first stage will likely be a deployment on NSA (Non-Stand Alone) basis, overlaying 4G infrastructure. This means that it is ultimately extremely scalable, making it much cheaper and easier for operators to deliver more capacity. It does offer higher download speeds and more data capacity, but that is not all. One of the critical factors is that it will enable a significantly higher number of devices to be connected simultaneously per/km.

During the weeks of lockdown to slow the spread of COVID-19, a surge in internet traffic from online students and stay-at-home workers put an immediate strain on global internet networks, as infrastructure in many countries has yet to be upgraded to newer 5G systems with more bandwidth. Streaming companies announced that they would lower the quality of their video to help ease internet traffic.

In Beijing, the Politburo standing committee meeting has recently offered some pointers as to the areas where China's fiscal stimulus spending will focus on. The Chinese government has decided to speed up infrastructure construction with a focus on shifting from traditional projects to a new round of digital infrastructure to support economy recovery.

New infrastructure construction involves seven key areas, including building out the national network of 5G base stations, neighbourhood electric vehicles (NEV) chargers, big data centres, industrial internet, artificial intelligence, ultra-high-voltage projects, high-speed railway and intercity railway transit. A total of 25 provinces and municipalities have emphasised new infrastructure to pursue high-quality development, with 21 intending to promote 5G network construction. China Mobile, China Unicom and China Telecom, the country's big-three telecom carriers, have launched their second-phase 5G purchasing plans as part of their joint efforts to build at least 550,000 5G base stations this year. It is estimated[57] that the three carriers' combined capital expenditure is expected to stand at around 300 billion yuan (US$42.9 billion) this year, with one third of that going to 5G.

In western countries we have not yet seen this level of granularity in the respective governments' announcements, but it is probably fair to assume that they will be trying to follow suit. Given the bipartisan agreement in the US on the danger to US interests posed by China becoming a technologically high-specification country, 5G development in the US has become a clear priority.

[57]Source: Martin Currie, company information.

THE AFTERMATH IN VIDEO

Technology on the horizon

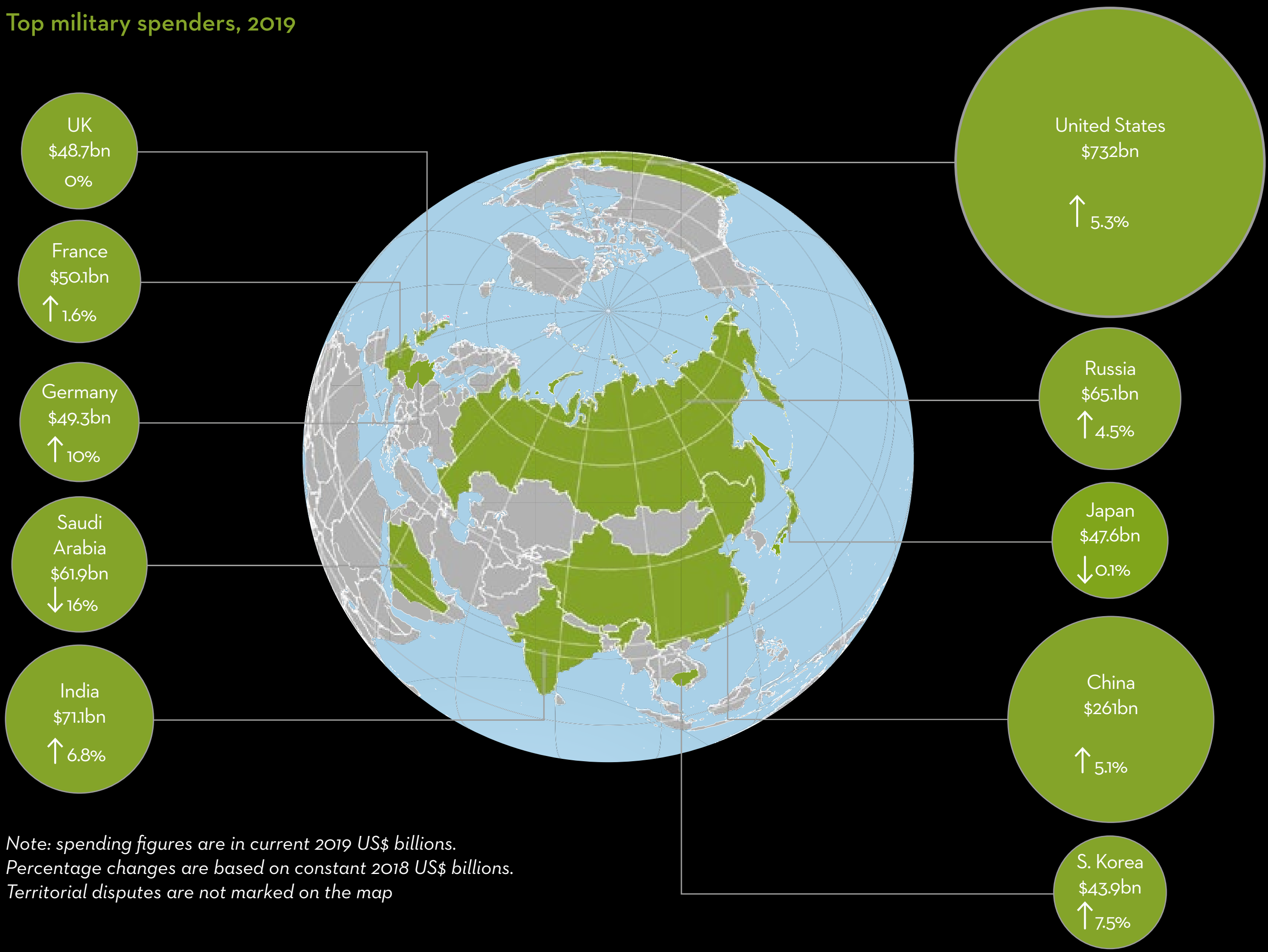
Kim Catechis and Divya Mathur Portfolio Manager for the Global Emerging Markets strategy, discuss the impact of COVID-19 on the technology sector and the ongoing geopolitical strains on the supply chains and rollout for 5G.

Click here to watch the video ›

Defence

According to the Stockholm International Peace Research Institute[58] (SIPRI), 2019 saw the largest annual increase in defence spending in a decade, to US$1.9 trillion. This is absolutely consistent with the steady erosion of multilateral organisations over the recent past. As the United States has effectively withdrawn from the role of world police officer and the tensions between Washington, DC and Beijing have escalated, every third country with an existing unresolved conflict now feels either sufficiently empowered or threatened to reconsider its state of readiness for potential conflict.

Top military spenders, 2019



Note: spending figures are in current 2019 US$ billions. Percentage changes are based on constant 2018 US$ billions. Territorial disputes are not marked on the map

Source: SIPRI Military Expenditure Database, April 2020.[59]

The key thing to remember here is that only one region in the world reduced military expenditure in 2019 – sub-Saharan Africa. Every other region increased the budgets. In some cases, like Russia and China, it forms part of a long-term strategy to modernise their forces. Over the last decade, the biggest spenders in value terms include Romania (+154% due to payments for new fighter aircraft), Algeria (+93%), Turkey (+86%), Pakistan (+70%), Indonesia (+69%), Oman (+60%), Poland (+51%), India (+37%) and South Korea (+36%).

Many of these countries are on geopolitical fault lines so we should not be surprised; and although the military industrial complex is clearly alive and well, the short-term impact of COVID-19 will certainly be to delay many of these orders.

[58]U.S. Source: Stockholm International Peace Research Institute. Trends in world military expenditure, 2019.
https://www.sipri.org/media/press-release/2020/global-military-expenditure-sees-largest-annual-increase-decade-says-sipri-reaching-1917-billion
https://www.sipri.org/sites/default/files/2020-04/fs_2020_04_milex_0_0.pdf

[59]Source: Stockholm International Peace Research Institute.
https://www.sipri.org/research/armament-and-disarmament/arms-and-military-expenditure/military-expenditure#expanded

GOING GREEN

Environment

Clearly the huge drop-off in economic activity (and particularly in travel) during the lockdown period, resulted in lower emissions and pollution, evident in maps of nitrogen dioxide concentrations in many of the cities around the world. However, the lower emissions from reduced industrial activity have been temporary and there is no specific structural change necessarily taking place – merely a pause. Once industrial activity fully resumes, emissions are likely to climb back up. The need to address the issues associated with emissions and climate change has therefore not gone away.

A possibly less obvious casualty of this reduction in emissions is African and other wildlife; it will be under renewed pressure from poaching, as many of the conservation initiatives that care for them depend on eco-tourism revenues to pay for rangers and wildlife-protection infrastructure. At the same time, the duration of the local economic recession in these rural areas tends to be longer, meaning that even if there is a 'V-shaped' economic recovery in the cities, more people could be forced into poaching as a way of feeding their families for longer.

One casualty of the current crisis is the key COP26 climate talks, which were due to take place in Glasgow in November 2020. These have now been postponed and take place in November 2021. The postponement may look initially like a setback but with huge amounts of preparation required in advance of the talks and some concerns about the lack of preparation for the initial timetable, there may now be an opportunity to make these talks more effective when they do happen.

In the context of the environment, it has also been interesting to monitor the policy evolution in different regions. In the EU, despite short-term delays due to operational risks, the Green Deal will go ahead, and policymakers remain committed to a green stimulus. The situation is very different in the US, where the COVID-19 crisis seems to have been a catalyst to accelerate the roll back of environmental standards. Any delays in action will, however, clearly present a bigger challenge for the extent of future policy change required.

The EU's Green Deal

Under its Green Deal, to meet its obligations under the Paris Agreement, the EU is committed to launch policies which will reduce greenhouse gas emissions to a net-zero level by 2050. The European Commission estimates[60] that between 2030 and 2050, EU states will have to spend a total of €575 billion every year on decarbonization efforts to hit the net-zero benchmark. That figure is subject to change as renewable energy prices, battery storage and carbon capture and sequestration costs come down.

COVID-19 and the massive stimulus packages deployed to deal with it may have a direct and adverse impact on the timing of the execution of the Green Deal, but it seems unlikely at this stage that they will derail it.

The difficulties experienced in the run up to 2020 were around negotiating with the governments of Poland (which generates 80% of its electricity from domestic coal), Hungary and the Czech Republic, finding ways to persuade them not to trigger a West-East rift in the EU.

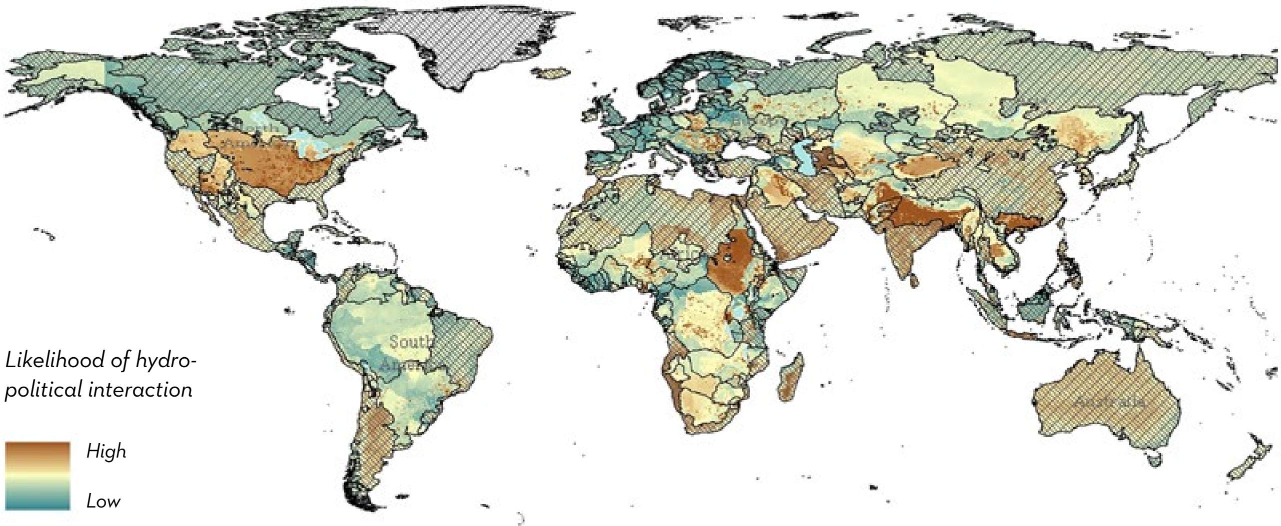
In the aftermath of COVID-19, the Green Deal could become the driving force of an economic resurgence; tariffs can be used to protect 'green' and relatively expensive European industry, onshoring more activity, thus protecting jobs and serving to redress some of the balance lost after the global financial crisis.

But the pandemic has caught the Deal in the middle of legislative process, before obtaining the final approval of the European Council or Parliament. That raises the likelihood of either delays or dilution to the legislation, or even both. However, it seems likely that at least a quarter of the next budget, covering 2021 to 2027 will be dedicated to 'green' projects.

[60]Source: Communication from the commission to the European Parliament, the European Council, the council, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank – COM(2018) 773, 28 November 2018.
https://ec.europa.eu/transparency/regdoc/rep/1/2018/EN/COM-2018-773-F1-EN-MAIN-PART-1.PDF

Water stress – less cooperation likely

The idea of geopolitical tensions increasing over water is not new. To date, we have not seen full-scale war being waged over access to water, as most disputes over the resource seem to be domestic. But for many areas of the world, the conditions are set for a potential conflict. The EU's Science Hub has used a machine-learning approach to identify the factors that contribute to conflict and the results are published a report[61] identifying the hotspots for potential transnational water disputes in the world, focusing first on those geographies where water scarcity in shared resources such as river basins is being felt already.



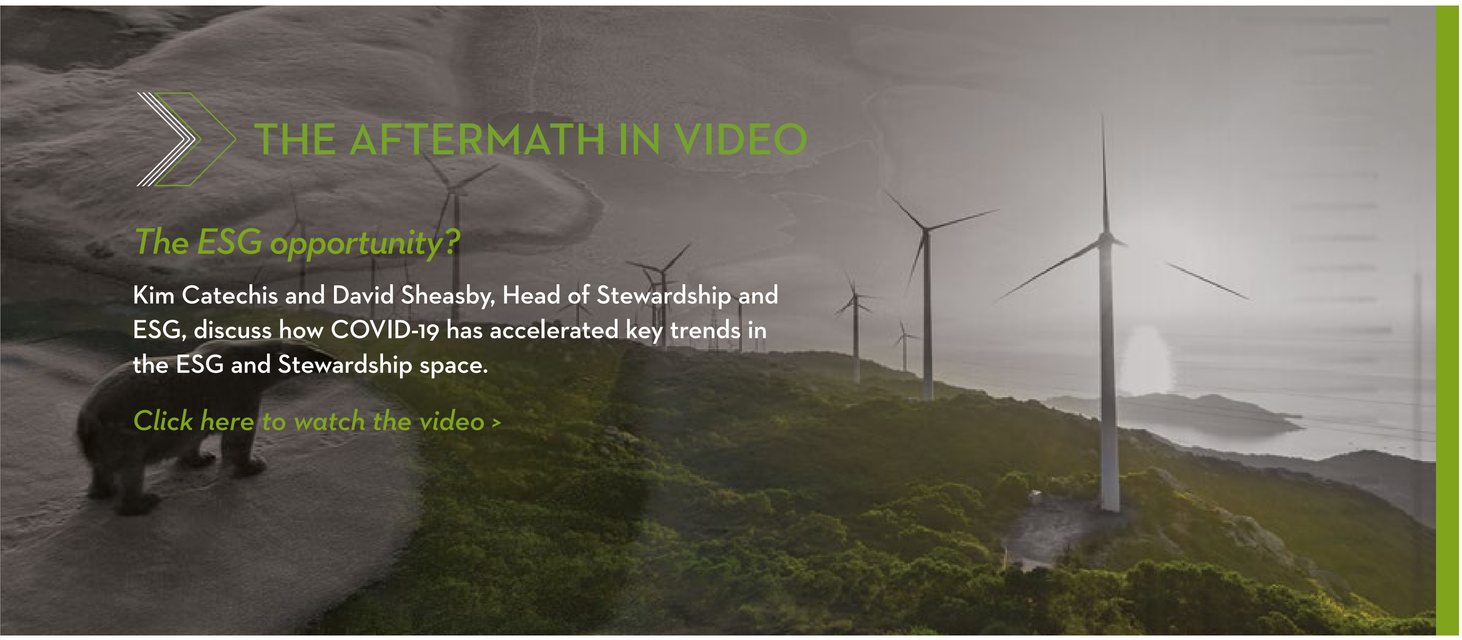
Source: *An innovative approach to the assessment of hydro-political risk: a spatially explicit, data driven indicator of hydro-political issues* – 2018.
F. Farinosi, C. Giupponi, A. Reynaud, G. Ceccherini, C. Carmona-Moreno, A. De Roo, D. Gonzalez-Sanchez, G. Bidoglio.

The study has set out a series of tools designed to help policymakers calibrate their responses, including an index and a model which complements the United Nations Sustainable Development Goals[62] (SDG) indicator '6.5.2 Proportion of transboundary basin area with an operational arrangement for water cooperation'.

The conclusions point to the combined effect of climate change and population growth increasing the likelihood of water related tensions by between 75% and 95%, unless the level of preparation and engagement by the countries concerned can result in significant alleviation measures.

[61]Source: European Commission, as at June 2020. *An innovative approach to the assessment of hydro-political risk: a spatially explicit, data driven indicator of hydropolitical issues* – 2018 F. Farinosi, C. Giupponi, A. Reynaud, G. Ceccherini, C. Carmona-Moreno, A. De Roo, D. Gonzalez-Sanchez, G. Bidoglio.
https://ec.europa.eu/jrc/en/publication/innovative-approach-assessment-hydro-political-risk-spatially-explicit-data-driven-indicator-hydro

[62]https://sustainabledevelopment.un.org/?menu=1300

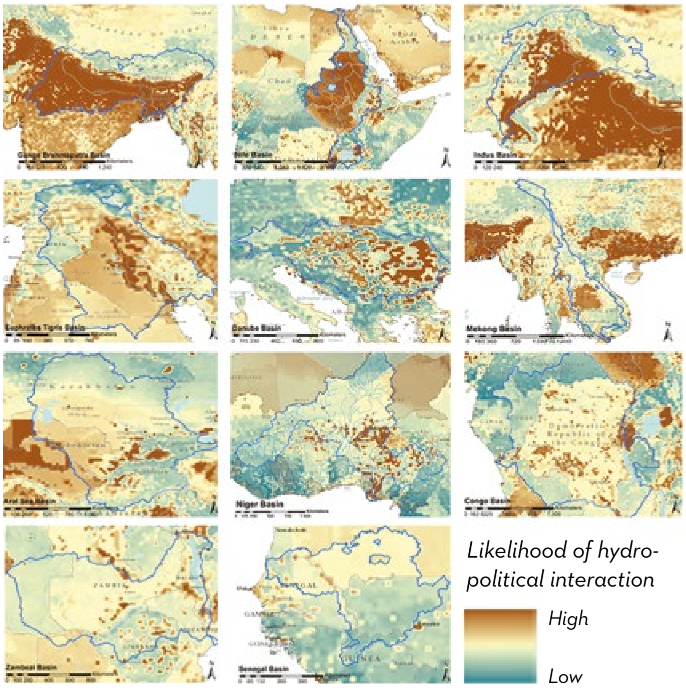


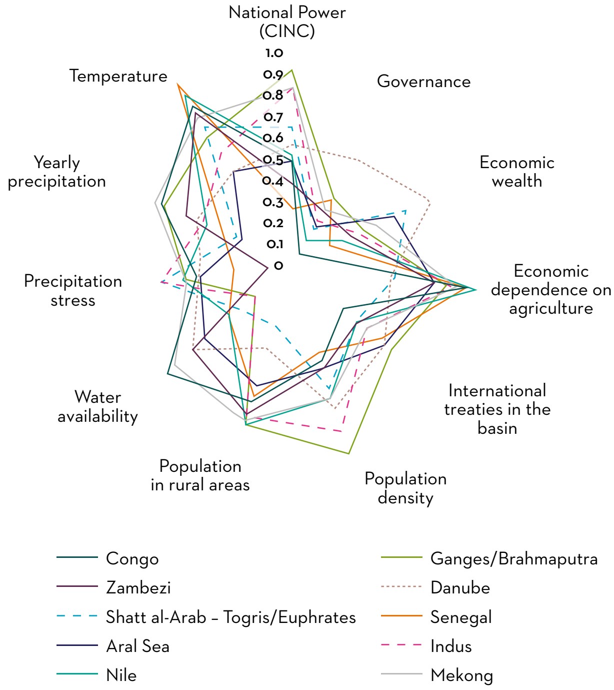
THE AFTERMATH IN VIDEO

The ESG opportunity?

Kim Catechis and David Sheasby, Head of Stewardship and ESG, discuss how COVID-19 has accelerated key trends in the ESG and Stewardship space.

Click here to watch the video >





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The most vulnerable areas are around the Nile, Ganges-Brahmaputra, Indus and the Tigris-Euphrates rivers. These areas also display fast economic growth and increasing populations, adding to the climate change pressures. According to the report, on a scale of 0-1, where 0 = minimum and 1.0 = maximum risk, the basins rank as follows:

Basin/Relevant Countries	Score	Basin/Relevant Countries	Score
Ganges-Brahmaputra India, China, Nepal, Bhutan, Bangladesh	1.0	**Nile** Egypt, Sudan, Ethiopia, South Sudan, Uganda	0.761
Indus India, Pakistan, China	0.675	**Euphrates-Tigris** Iraq, Turkey, Syria	0.592
Danube Germany, Austria, Hungary, Serbia, Romania	0.499	**Mekong** China, Laos, Cambodia, Vietnam	0.492
Aral Sea Afghanistan, Tajikistan, Kyrgyzstan, Turkmenistan, Uzbekistan, Kazakhstan	0.455	**Niger** Guinea, Mali, Niger, Nigeria	0.447
Congo Republic of Congo	0.432	**Zambezi** Rep. Congo, Angola, Zambia, Zimbabwe, Mozambique	0.431
Senegal Senegal, Mauritania, Mali, Guinea	0.372		

The Nile Delta basin rating is driven by the high potential for water scarcity issues, where it seems likely that there will be shortages in densely populated areas; this alongside the likely impact of rising sea levels. In the case of the Ganges-Brahmaputra Basin, which has the highest rating at 1.0 and the Indus (0.675), the key factors are low governance, high population density, physical water stress and an almost complete dependence on agriculture. India has two of the three highest-rated flashpoint areas in the report, one of which it shares with Pakistan, a country it has fought two wars and a number of limited conflicts already since Partition. This unhappy history will hopefully prioritise engagement and agreements around water use.

GEOPOLITICS

"Hope is an expensive commodity. It is better to be prepared." (Thucydides)

Moving towards a Hobbesian world

COVID-19 could have acted as a catalyst for greater cooperation across competing powers, all facing the common enemy. Unfortunately, it hasn't. As so often in history, the character of the leaders at the time of the global crisis sets the course for us all. A good outcome would be a de-escalation in US-China tensions and a joint focus on reigniting economic growth, via suspension of tariffs, increased medical and technological cooperation and agreements on how to get along.

The reality is that Beijing and Washington, DC hold very different views of how the international order ought to work and as the US relinquishes its global leadership, so a vacuum of power is created across the globe, heightening the importance of this conundrum. Bluntly, if the US and China cannot come to a workable arrangement that supports the normal functioning of the international system, the rest of the world is in limbo.

Only in trade have we seen a solution of sorts: the Trans-Pacific Partnership (TPP)[63], an ambitious multilateral trade deal driven by the Obama administration, but withdrawn from by the Trump administration, is now called the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)[64] and its eleven members have gone ahead regardless, representing 13%[65] of the world's GDP. That points to the future: the United States will plough its furrow, China will continue to work to develop its own sphere of influence along the 126[66] countries of the Belt and Road Initiative and the EU and Japan will lead a group of semi-aligned countries along a narrow third path, continuing to promote multilateralism.

Every dormant or low-intensity geopolitical stress point in the world will become more amplified. The scenario of two strong players failing to reach an accommodation means everyone else will feel free to ratchet up their own priority list. For most countries, there are sources of geopolitical or even existential risk that have lain dormant for over 70 years and are reawakening now. Foremost among these is of course the US-China confrontation.

> *COVID-19 could have acted as a catalyst for greater cooperation across competing powers, all facing the common enemy. Unfortunately, it hasn't.*

[63]Signed in February 2016 included the US, Mexico, Chile, Peru, Canada, Australia, New Zealand, Brunei, Indonesia, Vietnam, Malaysia and Singapore. The US withdrew in January 2017.

[64]https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cptpp-ptpgp/index.aspx?lang=eng

[65]https://www.mfat.govt.nz/en/trade/free-trade-agreements/free-trade-agreements-in-force/cptpp/cptpp-overview/

[66]Source: Xinhua 2019-09-14 http://www.xinhuanet.com/english/2019-09/14/c_138391095.htm

United States vs China

The great power rivalry between US and China will continue to escalate, mainly via trade and economic measures, but increasingly via military posturing in the South China Seas and elsewhere. The pressure on US technology companies to stop selling sophisticated technology to Chinese customers will grow, as will the demand for US companies to relocate out of China. In response, China is intensifying measures to eliminate dependence on US technology, but for now the 'size of the prize' represented by the potential growth of the middle income consumers in China seem to have dampened the chances of US companies exiting the country soon. It may well be that companies choose to use their Chinese plants to service the Asian markets rather than export to the US, instead.

The pressure on third-party governments to block Huawei is increasing even now, resulting in the postponement of 5G investment in many countries as they grapple with the costs (economic and diplomatic, as well as financial) of trying to please Washington, DC. This could not be coming at a worse time given that 5G technology would be a great catalyst in accelerating countries' exit from global recession by providing significant productivity gains.

There is a well-established school of thought in both academia and in foreign policy, according to which we can see the United States and China now locked in their own modern-day version of the Thucydides Trap. Viewed through this prism, the large-scale infrastructure-driven Belt and Road Initiative, the 1.9% of GDP being spent on defence and the installations of early warning radar and defensive capabilities in the South China Sea look like offensive moves to Washington, DC. From Beijing, they are seen as defensive and sensible – China believes it is bound to build out its national defensive capabilities, especially after a decades-long period of underinvestment.

Thucydides was a believer in a balance of powers as a mechanism to ensure order in an essentially anarchic world. Over the last 70 years, the growth of trade has served as a tension minimiser and a permanent reminder that countries do have shared interests and can benefit from closer understanding. The situation today is deteriorating rapidly as those investors who are paying attention, struggle to understand if what's going on between China and the US is just a nasty trade war, or an escalating, uncompromising cold war.

In both Beijing and Washington, DC, the decision-making circles have become smaller, with less interest in what expert practitioners have to say and more focus on gut instinct and visceral passion. This is a big problem, because it makes it less easy to 'read' signals correctly and lessens the likelihood of 'cooler heads' prevailing. Both of these point to higher chances of misunderstanding and further escalation, especially as both sides demand loyalty of their people and as a result, there is less tolerance of dissenting voices.

Washington, DC has found unusual bipartisan consensus on the judgement of China as a 'bad actor'. One school of thought has been that after China's entry into the World Trade Organisation (WTO), Beijing would be seduced by the dominant Anglo-Saxon capitalist model and would begin to copy it. The other contention is that China is communist, therefore hates the American way of life and will try to prevail at every opportunity. At the moment, these views seem to be converging.

In Beijing there are also two main camps, but now it seems that the prevailing view is that the US is using trade as a pretext and as such is showing its real, dastardly intentions, to keep China from developing and gaining its rightful place in the world.

Beijing lost any awe it may have had of the Anglo-Saxon way of doing business when the capitalist system crashed in 2008. Today, Beijing's priorities are: clean air and water, rising living standards, a break from the dependency on US technology and the permanence of the Communist Party, probably in reverse order.

Even without the blame game over COVID-19, the confrontation has been official for years. The US 2017 National Security Strategy[67] and the 2018 National Defence Strategy[68] documents both identified China as the United States' main strategic competitor. The Chinese 2019 Defence White Paper[69] takes up the challenge and spells out that the two countries are now competing superpowers and the objective is to develop China's forces to the point where they can challenge the US. But it also explains its defence moves to date and explains why they should be viewed as justifiable and non-threatening.

By recognising these openly and addressing the concerns voiced in the US documents, Beijing is seeking to demonstrate its open-handedness and to establish communication. It seems somehow fittingly strange, that the people who are seeking to maintain open communication channels are the militaries, not the governments.

> *When traditional diplomacy and soft power is either not working or is simply not deployed, third countries face prejudice and punishment if they are viewed as being 'out of line'.*

The US and China's use of coercion

Both the US and China are big, so they can throw their weight around. And when traditional diplomacy and soft power is either not working or is simply not deployed, third countries face prejudice and punishment if they are viewed as being 'out of line'. Historically, the use of economic coercion has been mainly China's; since 2016, the US has amplified its traditional use of financial sanctions with the unilateral levy of tariffs, company-specific and technological export prohibitions, as well as threats to block third countries from the regular flow of national security intelligence, or from negotiating trade deals. In the case of Mexico, the Trump administration forced a change in immigration policy by threatening incremental tariffs. Given 76.5%[70] of Mexican exports go to the US, the threats worked. China has been largely successful in leveraging its economic position to signal displeasure or to 'persuade' cooperation. Beijing has traditionally shied away from the use of financial sanctions, preferring instead import/export restrictions, popular boycotts, restrictions on investment and Chinese tourism or overseas study, alongside a combination of formal restrictions and informal pressure on specific companies. In the latest campaign against the adoption of Huawei for 5G network deployment, Washington, DC has had mixed results, the UK was a notable success, reversing a decision to accept Huawei equipment but Brazil was not. Beijing was successful in the case of the Philippines' decision not to insist on its rightful maritime boundaries, despite winning in the Permanent Court of Arbitration[71] in 2016. Its success in limiting the use of Terminal High Altitude Area Defense (THAAD)[72] missiles by South Korea was partly due to the economic cost of the ban on Chinese tourism and partly due to Seoul's calculation that with improved relations, Beijing could help control the behaviour of a belligerent North Korea.

[67] https://www.whitehouse.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905.pdf

[68] https://dod.defense.gov/Portals/1/Documents/pubs/2018-National-Defense-Strategy-Summary.pdf

[69] Issued in English and Chinese in July 2019.

[70] Source: MC Country Risk Framework - https://apqlik.martincurrie.com/sense/app/bbe2d155-7a3e-43e4-a7a2-3c9d5a4b4e59/sheet/d0e0fd7c-7071-4bae-a132-758b06d1c849/state/analysis

[71] Source: Cour Permanente d'Arbitrage – The South China Sea Arbitration https://pca-cpa.org/en/cases/7/

[72] Terminal High Altitude Area Defense (THAAD) is a transportable system that intercepts ballistic missiles inside or outside the atmosphere during their final, or terminal, phase of flight. https://lockheedmartin.com/en-us/products/thaad.html

Huawei

Meanwhile, 5G technology and Huawei have been the focus of the non-trade tariff confrontation. Huawei is a world leader in communications infrastructure and 5G and has 27% market share of IT networks globally[73]. At this point, its CFO is in Canadian custody, fighting extradition to the US, the company has been banned from supplying American companies, other countries have been bluntly pressured by the US to cut commercial ties with the company and US component manufacturers have been banned from supplying Huawei. The latest move[74] from the Department of Commerce effectively prohibits non-US companies that use US technology from supplying Huawei and other Chinese technology companies with advanced semiconductors. This impacts market leaders Taiwan Semiconductor Manufacturing Company (TSMC), Samsung Electronics of South Korea and others and it remains to be seen, how they deal with it. China will retaliate, but probably in a measured way, by publishing its own Unreliable Entities List, focused on US technology companies. However, the nationalist blogosphere is incendiary and could easily trigger consumer boycotts of American brands and products. In 2019, Chinese tourists outspent all other nationalities and contributed US$33.5 billion to the US economy. Around 350,000[75] Chinese students (a third of international students) at US colleges spent approximately US$ 15 billion[76]. These revenues will be the first to go.

China

Beijing has been determinedly but relatively unsuccessfully engineering a public relations coup by focusing attention on its material support for other countries rather than the possible shortcomings of its own approach in the initial stages of the epidemic. Gifts of protective equipment for healthcare workers, ventilators and other hardware have been delivered to Italy, Spain, Serbia, Montenegro, Vietnam and others. The Serbian PM famously declared that his country's true friend is China, not the neighbouring EU. The vast majority of this equipment is made in China and of course the EU did gift equipment to Beijing in January, when the outbreak's seriousness became known.

The reason it has been unsuccessful is mainly down to Beijing's perceived unwillingness to accept responsibility, coupled with an adverse reaction to the country's 'Wolf Warrior' diplomacy. In a nod to the hugely popular Wolf Warrior action film franchise starring a Chinese special forces hero, cadres in the Ministry of Foreign Affairs sought to echo Xi Jinping's call for more assertive diplomacy. The spectacle of combative ambassadors explicitly warning their host countries to stop criticising China proved counterproductive.

The PR battles that Beijing wins now are more important than ever, given that the coming decade will see the struggle for spheres of influence increase in tempo and in gravity. The likely spread of COVID-19 along the route of the Belt and Road Initiative (BRI)[77], will be followed by the same demonstration of largesse to these countries, most of whom have weak healthcare systems and are extremely vulnerable to large-scale human losses and social unrest as a result.

[73]https://www.statista.com/statistics/540750/it-network-market-share-by-vendor/

[74]https://www.commerce.gov/news/press-releases/2020/05/commerce-addresses-huaweis-efforts-undermine-entity-list-restricts

[75]https://www.iie.org/en/Research-and-Insights/Open-Doors/Fact-Sheets-and-Infographics/Fast-Facts 2019 Factsheet - IIE

[76]Source: Institute of International Education https://www.iie.org/en/Research-and-Insights/Open-Doors/Fact-Sheets-and-Infographics/Fast-Facts 2019 Factsheet CHINA

[77]Launched in 2013, BRI is an ambitious Chinese plan to extend and solidify western and southern trade routes, starting with infrastructure projects, encompassing communications technology and finally projecting soft power and extending political influence. It covers more than 80 countries across Asia, Africa and Latin America.

The BRI is, without doubt, President Xi Jinping's signature international initiative and provides a narrative for Beijing to promote its global vision. So, in tandem with the physical infrastructure build-out along the 126[78] countries of the BRI, there has been a concerted effort to build a so-called Digital Silk Road (DSR), effectively putting down the backbone of communications technology, such as 4G and later 5G, according to Chinese standards and built by Chinese firms. This is now an absolutely central part of the BRI and will be energised by the escalating technology-based tensions with the US, as China seeks technological self-reliance. Companies such as Huawei and ZTE are also paving the way for state-owned enterprises such as China Mobile to follow and dominate these high growth markets.

Looking at the world from Beijing's perspective, the US market appears less open and the EU is demonstrating increased levels of scrutiny on Chinese investment and market shares. Therefore, Asia, Africa and Latin America, (in total, home to three quarters of the world's population) become the prize. This clarity of view works from a security standpoint, as well as a trade one. Food, oil, gas and ores all come from these regions – providing the logistical and communications infrastructure. At the same time, the Chinese model of economic management cements relations and guarantees supply.

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European Union

The EU has widely publicised splits: North-South when it comes to public finances, West-East when it comes to adherence to the common values subscribed to by member countries, and observers often forget that this is not a federation. It has, however, turned itself into the world's biggest consumer market, with over 500 million people and at the same time, the world's foremost setter of specifications, which brings it naturally into conflict with both Washington, DC and Beijing. Militarily, even after the UK's departure, the EU remains the core of NATO and France leads the Union's defence capabilities. Soft power though, is an area where Europe has historically excelled at, making use of its world leadership in education, technological and pharmaceutical research and development as well as luxury brands. In the scenario of a rudderless world trending towards narrow national interest, the EU becomes the global champion of multilateralism, joined by Japan, Canada and Singapore most notably. The challenge it faces is to somehow replicate Australia's balancing act, trying to maintain the alliance with the US without becoming subservient and to maintain economic links with China without paying a price in terms of sovereignty or security. The difference is that the EU can deal with the imperfect scenario for longer. Germany's coalition with the Green party and its recent change of attitude to debt means Berlin will lead in infrastructure spend related to the EU's Green Deal. For France, the pandemic has proved an opportunity to rebuild the image of technical competence and economic sovereignty, while the coming moves to redesign international supply chains is an attractive way to redeploy industry and rebuild capacity and jobs in the years to come.

Geopolitically, France and Germany remain the drivers of the EU's power projection and, in an increasingly polarised world, the French military constitutes a credible hard edge deterrent if required.

All that said, the internal divisions will remain, and tensions will ebb and flow but ultimately every capital bar Warsaw (seemingly the only old fashioned Atlanticist left in the world) understands that they need each other to survive in a rougher geopolitical world.

[78]Source: Xinhua 2019-09-14 http://www.xinhuanet.com/english/2019-09/14/c_138391095.htm

Australia

Successive Australian governments have walked the fine line between depending on China economically and on the United States geopolitically. Australia is one of very few countries with a trade surplus with China. The relations with Beijing, however, soured from the moment when Canberra became the first US ally to ban Huawei from its 5G network. That was followed by the increasing scrutiny of foreign investment, especially coming from China. The full extent of the change was signalled as the Foreign Investment Review Board (FIRB) has been applying a more intense national security lens to foreign investment under the leadership of former intelligence agency chief David Irvine. And it looks like the FIRB will be moved to the Department of Prime Minister and Cabinet, closer to the national security apparatus and further away from the 'free market' minded Treasury.

Australia has effectively already chosen to stay in the US camp, so going forward should expect economic ties with China to begin to loosen. The distancing will start with tourism and education, worth A$16 billion per annum, according to the Australian Department of Foreign Affairs and Trade[79] then spreading to food and agricultural products, another A$16 billion according to the Australian Department of Agriculture, Water and the Environment[80]. Indeed, on 6 June[81], Beijing issued a travel advisory, advising citizens not to visit Australia because of increased racism since the COVID-19 pandemic.

Perversely, Australia's loyalty to the US is costing its farmers directly; they spent over 20 years building up their Chinese client base, which is now being directed to buy from the US, because of the Phase I trade deal struck in December 2019. The deal is essentially managed trade, stipulating volumes of purchases and penalties if they are missed. Previous non-tariff barriers to US barley for example, were lifted just before Beijing blocked Australian exports. On the bright side, Canberra now has an opportunity to work with New Zealand to put into practice the Trans-Tasman 'safe zone', providing the rest of the world with a potential model to follow as a mechanism to speed up economic recovery. Finally, the country's membership of the CPTPP trade agreement, representing 13%[82] of the world's GDP, provides an opportunity to increase trade with ASEAN, Vietnam and Japan.

The information provided should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that any of the security transactions discussed here were or will prove to be profitable.

[79]Source: Australian Department of Foreign Affairs and Trade https://www.dfat.gov.au/sites/default/files/chin-cef.pdf

[80]https://www.agriculture.gov.au/abares/publications/insights/snapshot-of-australian-agriculture-2020#around-70-of-agricultural-output-is-exported

[81]Source: (state-owned) Global Times 6th June 2020 https://www.globaltimes.cn/content/1190849.shtml

[82]https://www.mfat.govt.nz/en/trade/free-trade-agreements/free-trade-agreements-in-force/cptpp/cptpp-overview/

Russia

The Kremlin is well aware of its own vulnerability. Russia is a predominantly resource-based economy constrained by sanctions, with a large working population that is educated, but not growing. That's why it has built a robust macroeconomic moat around itself. The country has very low external debt (28% of GDP[83]) and its reserves are equal to 1,078%[84] of short-term debt. For comparison, the UK's reserves are at 3.1% and the US's are at 2.1%.

The country's National Wealth Fund now stands at US$177 billion[85], but the Bank of Russia's reserves are US$590 billion[86]. Russia has spent a long time readying its sovereign financials and its fiscal breakeven point for oil is commonly estimated at US$42/bbl[87].

Russian diplomacy has been little short of hyperactive in Africa, relative to the last 30 years. In moves that are significantly lower profile than China's Belt and Road Initiative, companies and officials are reanimating relationships that were strong in the cold war period and have been dormant since. These moves look to be more evidence of the decision to fill the vacuum left by retreating US influence and gain access to 'new', fast-growing markets at the same time. A key message from Moscow is that events in Syria demonstrate that Russia is a constant, while the US is unreliable. The Kremlin does have a moderate appetite for risk, bolstered by the strong sovereign balance sheet and the certainty of its neighbours' energy dependency, for at least the next generation. The risk appetite is highest when it comes to the ring of countries that are effective buffers against unchecked NATO expansion, like Ukraine and Belarus. This is effectively a red line for the Kremlin. Ongoing ructions in Armenia and Azerbaijan (with Turkish encouragement) over Nagorno-Karabakh, popular unrest over election credibility in Belarus and Kyrgistan – these are extremely concerning for Russia. The geopolitical playbook has evolved over the last 20 years of Putin's leadership. It now relies on smaller, but better-equipped armed forces and the development of 'hybrid warfare', which blends conventional and irregular warfare, cyber-attacks and the use of 'plausibly deniable' forces, as was demonstrated in Crimea. Russian cyber and propaganda capabilities are particularly sophisticated and are intentionally flagged as evidence of the country's continuing relevance. But the biggest impact has been down to tactical deployment of these tools and a clarity of purpose which generates extreme pragmatism in strategy, as demonstrated in the changing relationship with Erdogan's Turkey, once a bitter foe, now a convenient ally and potentially a 'frenemy' in the future.

Ultimately, Russia is geopolitically in long-term decline and will entirely rationally try to remain relevant for as long as possible, to fight the fade for longer and to gravitate cautiously towards China over the long term.

[83]Source: Martin Currie proprietary country risk framework, World Bank and Central Bank of the Russian Federation 24/01/20.

[84]Source: Martin Currie proprietary country risk framework, World Bank and Central Bank of the Russian Federation 24/01/20.

[85]Source: Ministry of Finance of the Russian Federation: https://www.minfin.ru/en/key/nationalwealthfund/statistics/?id_65=104686-volume_of_the_national_wealth_fund as at 01/08/20.

[86]Source: Central Bank of Russia https://www.cbr.ru/eng/ as at 21/08/20.

[87]Source: IMF Article IV Consultation https://www.imf.org/en/Publications/CR/Issues/2019/08/01/Russian-Federation-2019-Article-IV-Consultation-Press-Release-Staff-Report-48549

India

In common with many countries, India has always appreciated the cult of personality. Prime Minister Narendra Modi, the nation's self-appointed *'chowkidar'*, or watchman in Hindi, has engineered a meaningful shift in the historically secular nature of his country, which is enshrined in the constitution. There is little doubt that his party, the BJP, wants to reshape the country into a Hindu state. This preoccupation with domestic make up does, however, require external bogeymen. Pakistan has long filled that role, but it now appears that the 'enemy' has been identified within India, namely the country's minority Muslim population, who account for 13% of the population, or 138 million[88], according to the Ministry for Internal Affairs. And COVID-19 has only intensified this rhetoric.

However, two of the key medium- and long-term challenges faced by Delhi do not get much airtime: education and climate change. India's population is 1.3 billion (66% of which is rural), growing at 1.4% per annum, with an average age of 29 years and a big gender imbalance (107 boys/100 girls). Education is fragmented and although the country produces many STEM[89] graduates, only 43% of children complete secondary school, according to UNESCO[90]. The gender imbalance means that over the next five years there will be around 22.5 million young men who have not finished secondary school, with low chances of getting a formal job, or starting a family. India's score on intergenerational mobility at 0.77[91] is the worst in Emerging and Frontier Markets.

The key elements of India's climate change vulnerability are a 7,517 km long coastline, and large population reliant on agriculture, forestry and fishing which in 2019 contributed 16%[92] to India's GDP but still employs 42.4%[93] of the country's workforce. Fishing specifically accounts for 23%[94] of all agricultural exports and employs 13 million[95] people. More importantly, the agricultural sector accounted for 43%[96] of male employment in 2012. Given the above statistics, the implications of millions of unskilled and underemployed young men are clearly challenging.

The combination of heatwaves, water stress, and the rise of automation and underemployment is likely to build internal pressures which Delhi will have to deal with – compounded by the likely high cost of COVID-19 this is a challenge that India cannot fail to address.

Finally, the recent flare-ups over the still-disputed border with China, which have resulted in military casualties and the banning of Chinese apps by Delhi, set relations between the two countries on a downward spiral for now. Delhi appears to be gaining confidence from the escalation in measures taken by the US, as well as by a fear of encirclement, as Chinese ports and military bases in Djibouti, Sri Lanka and Pakistan build out Beijing's 'blue water[97]' capabilities.

There are a number of moves that India could make to bolster its position, but all imply a departure from a long tradition of non-commitment to alliances and economic protectionism and it is not yet clear how the Modi government chooses to play this. The two most obvious options are:

- **CPTPP:** as per the historic pattern with trade deals, India stayed with the negotiations to join, pushing for more protections for its domestic market but dropped out at the very last hurdle. Entering this 'club' would have a significant impact on trade, as well as providing a firmer basis for more regional security cooperation.
- **The Quad:** this is sometimes viewed as a controversial idea, launched in 2004 to foster closer co-operation in emergency relief between Australia, Japan, the United States and India. From there, it was subject to conflicting objectives and is now being revived as a potential de facto defence alliance. Much is still to be defined, but the mere act of upgrading attendance at ministerial level at the October 6th meeting in Tokyo sent a strong signal.

[88]Source: http://censusindia.gov.in/Census_And_You/religion.aspx

[89]STEM stands for Science, Technology, Engineering and Mathematics.

[90]Source: UNESCO and Martin Currie Country Risk Framework.

[91]Source: Martin Currie Country Risk Framework and Global Database of Intergenerational Mobility (GDIM) https://www.worldbank.org/en/topic/poverty/brief/what-is-the-global-database-on-intergenerational-mobility-gdim

[92]Source: World Bank https://data.worldbank.org/indicator/NV.AGR.TOTL.ZS?locations=IN

[93]Source: World Bank Open Data https://data.worldbank.org/indicator/SL.AGR.EMPL.ZS?locations=IN

[94]Source: Statista, Agricultural and Processed Food Products Export Development Authority (APEDA).

[95]Source: Food & Agriculture Organisation of UN September 2019 (line 4 of Country Brief) http://www.fao.org/fishery/facp/IND/en

[96]Source: Statista https://www.statista.com/statistics/700002/india-share-of-employed-males-by-sector/

[97]Blue Water capabilities are maritime forces that can project power globally, i.e. across the blue waters of the oceans.

Mexico

Mexico's geopolitical challenges can be summed up simply as: drugs, the United States and the economy. Controlling the pervasive drug-related violence was a key election promise for President Andrés Manuel López Obrador (AMLO) and it has clearly not happened. In fact, the 'narcos' are taking advantage of the government's weakness in policy delivery in some areas, to cement their position by handing out daily food parcels with the face of the local cartel leader stamped on them. COVID-19 has wreaked havoc on an already fragile economy and the insistence on expansive and ambitious spending is proving too much for the country's anaemic finances. Meanwhile, the economic agenda has not moved, with commitments to the flagship social and infrastructure projects intact, along with a focus on state control of the energy sector, in spite of downgrades to Mexican state-owned petroleum, Pemex. AMLO's response has been to double down on austerity in the civil service, involving restructuring, which is in turn leading to execution bottlenecks. At the same time, the United States has been driving Mexico's immigration policy by threatening the cross-border trade with tariffs and creating difficulties for AMLO on water use in the border area. Although the government has proved to be one of the world's slowest to recognise the virulence of COVID-19, AMLO's popularity remains high and given the fragmented opposition and his headline-grabbing anti-corruption campaign, he looks good for the mid-term elections for the Lower House in 2021. The biggest risks are further deterioration in the economy and security.

Brazil

Geopolitically, Brazil is in a good place. Competent economic management has been allowed a free hand, the country's agriculture sector continues to benefit from the US-China trade war and stands to gain from Australia's growing tensions with Beijing. Brasilia has so far flattered Trump and assuaged Xi by welcoming Huawei. However, President Bolsonaro has reached the limits of his political capital. He is embattled, with corruption investigations getting close to his sons, the resignation of the widely respected Minister of Justice and the loss of two health ministers in a month, over disagreements on COVID-19 measures. Meanwhile, there is a growing political polarisation, there are fears of a military coup (denied by the top brass) and the pandemic is viewed through the partisan lens, just as is the case in the US. Counter-intuitively, Brasilia may manage to deliver broad tax and some sector-specific reforms in this administration, even though fiscal accounts will suffer, as in every other country. For now, Bolsonaro's base popularity is proving resilient around 30% and constitutes his best defence against impeachment, but things may change by the time the next election comes around – not least the final reckoning of the country's struggle with COVID-19. His calculation is that his supporters will value economic growth above all else.

> *Geopolitically, Brazil is in a good place. Competent economic management has been allowed a free hand, the country's agriculture sector continues to benefit from the US-China trade war and stands to gain from Australia's growing tensions with Beijing.*

South Korea

Seoul has the only democratic government in the world that appears to already be in tune with what societies say they want: an agenda that is citizen-oriented, left leaning, with big government support for the economy and the redistribution of wealth. The results in the last elections would seem to underline also an appreciation for the government's competence in dealing with COVID-19. Geopolitically, however, challenges abound. The North is probably suffering terribly from the pandemic, which makes it more dangerous than usual. China and the US are both tugging at Seoul over Huawei, with uncertain outcomes for Samsung Electronics and SK Hynix and the future of high-specification technology exports to Chinese companies. Meanwhile, the Trump administration is demanding higher financial contributions for the US military bases on the peninsula. Elsewhere, Japan is still resentful of South Korean courts' decision to allow damages to be sought from Japanese companies for wartime behaviour. As the confrontation between Washington, DC and Beijing escalates further, the pressure on Seoul will become unbearable. Assuming the pandemic remains under control until President Moon's single term ends in 2022, his party is well-placed for the next elections. The delicate balancing act of managing China relations (32% of exports[98]) with the United States (12%[99] of exports, but a defence partner) continues.

Taiwan

Even more exposed to the deterioration in relations between China and the US, Taipei is slightly different in that the game is more nuanced – a re-elected government with a clear mandate for continued independence, working hard to persuade its companies to relocate back home and yet economically extremely dependent on China. Further, it has a unique handicap of not having any official recognition and being excluded from multilateral organisations such as the World Bank and the World Health Organisation. Recognition by Washington, DC is a card that can only be played once and would almost certainly constitute an irreversible red line for Beijing. Militarily, an invasion is not beyond the capabilities of the People's Liberation Army, but any US involvement would almost certainly involve bombing the mainland, which would lead very quickly to the threat of nuclear war. The recognition of this scenario appears to be holding both sides back. The room to move diplomatically is narrowing all the time and it is becoming harder to envisage a way that its leading technology companies can continue to operate unhindered in both China and the US. It all depends on the two heavyweights reaching an accommodation. Meanwhile, Taipei looks ill-equipped to help defend its tech champions like TSMC in this version of the 'Great Game'. Expect Taipei to fall into line with the US on the technology confrontation, even at the considerable economic cost of disengagement from China.

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[98]Source: Martin Currie Country Risk Framework – data as per 2019.

[99]Source: Martin Currie Country Risk Framework – data as per 2019.

United Kingdom

The country has left the EU and is now in a transition period which, unless it is extended, expires at the year end. Given the parliamentary majority, it is highly likely that the government exhausts this period of transition without a trade deal with the EU and without any further delay. The treaty signed and ratified in January, with Northern Ireland treated as a special case, effectively allowed the rest of the country to diverge from the EU. That now needs to be resolved, as Downing Street appears to be trying to contravene the treaty, with respect to commerce between Britain and Northern Ireland. Even without this aggravation, it was likely that high regulatory barriers as well as tariffs become meaningful obstacles to trade with Europe, with negative implications for the economy. Worryingly for the government, there is significant opposition to a trade deal inside Congress and the Senate, if Downing Street's actions are perceived to be putting the Good Friday Agreement at risk. The verdict so far is that COVID-19 has not been competently handled, so politically everything depends on the progress of the pandemic over the next 6–9 months. Geopolitically, the UK faces significant challenges in a world where size and heft matter more than history and its soft power has been greatly eroded. Trade deals with the US (opening up the National Health service to US private healthcare firms), India (promising unrestricted visa free travel), or anyone else will not be easy or advantageous to Downing Street and sterling is likely to reflect the increasing public debt and lower export sales dispassionately, potentially nearing parity with the US dollar. In the background, tensions are rising with Northern Ireland and Scotland, both potentially holding referendums within the next two or three years; the former on joining Ireland, an EU member and the latter on independence, rapidly followed by an application to re-join the EU. Even if these do not come to pass, the tensions with Westminster are growing inexorably and will hamper governability.

Japan

Geopolitically, Japan has faced the same challenges, some only implicit, for a generation. Relations with China and South Korea have been uncomfortable due to still unsatisfactory accommodations reached after World War II. North Korea is a nuclear power that constitutes an existential threat and more recently the US is threatening a repeat of the damaging trade war of the 1980s if the cost of its 'defence shield' is not raised. Economically, the country has been in a limbo for decades, with declining population and increasing debt. COVID-19, although broadly well handled, represents another blow. ASEAN and the EU are where corporate Japan's hopes are pinned and Tokyo is a cornerstone investor in the revamped CPTPP trade association. The withdrawal of many Japanese businesses from the UK after the Brexit vote was triggered by a new, free-trade agreement with Brussels, completed in 2017. Going forward, Tokyo must balance the various stakeholders in trade as it is unlikely to change the constitution to allow the creation of a military force with which to project hard power. The resignation of Prime Minister Shinzo Abe appears to have been well handled, with his successor Suga Yoshihide presenting a continuity platform. The key challenges for Japan remain to boost the domestic economy, broaden its economic and political reach and prepare to be less reliant on the US for defence.

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Pakistan

Pakistan is a country that appears defined by religion and continuous tension with India. On the first day of independence in 1947, the military was the only fully functioning institution, given that the bureaucratic centre was headquartered in what is now India. The military have been central to the running of the country since then (prime ministers do not tend to complete their terms in office). This is important because it sets the course of the country's foreign policy. Although it is not a rich country, it has a strong military and is the only Muslim state with nuclear weapons. That gave it support from Saudi Arabia historically; Saudis used to say they had 'outsourced' their nuclear deterrent to Islamabad.

Pakistan and China have had a long friendship and of course share a dislike of India. For Pakistan, chronic security concerns, a dearth of infrastructure and a deterioration in relations with the US since the end of the Cold War meant a warm welcome for China.

The China-Pakistan Economic Corridor (CPEC[100]) commitment covers energy, transport & logistics, health, education and water supply. So far, 5,320 MW of generating capacity (31% of target) and 2,548 km of highways (36% of target) have been delivered at a cost of US$10.8 billion. There are a myriad of projects including 4,122 km of railways and a series of industrial zones on the plans which, if delivered, will transform the country by 2030.

The CPEC now represents a compelling calling card, demonstrating what a strategic alliance with China can do for third countries.

Special economic zones under CPEC

[100]Source for map: CPEC Factbook 2019 – Government of Pakistan Ministry of Planning Development & Reform p11.
http://cpec.gov.pk/brain/public/uploads/documents/Fact%20Book%202020.pdf

Gulf states

The Gulf States are all impacted by the new normal of the below US$40/bbl oil price. Although the headlines have focused on Saudi Arabia and its financial resilience, there are more considerations than just the oil price at play here. Fiscal breakeven oil price is US$92 for Bahrain, US$84 for Saudi Arabia, US$88 for Oman, US$70 for UAE, US$55 for Kuwait and US$46 for Qatar, according to the IMF[101]. In the medium term, the key challenge for these countries is to maintain social stability among their own nationals, in spite of reducing their generous welfare state. But there is an extra dimension to the challenge, exacerbated by COVID-19: the foreign workers who normally keep the Gulf's economies running.

Saudi Arabia

The Kingdom is in the throes of a series of strategic departures from its own established norms that began with the anointing of Mohammed Bin Salman, (MBS), as the heir to King Salman bin Abdulaziz. By anointing his son MBS, the King effectively broke with the long-established tradition of consensus, which would have passed the throne on to the next senior, in this case his nephew: the experienced, widely respected ex-Crown Prince Mohammed bin Nayef. This unilateral move, along with MBS's actions to consolidate power have upset many in the ruling family, leading to speculation about the eventual succession. The international fallout over the war in Yemen and the murder of dissident Jamal Khashoggi in Istanbul have been detrimental. This is relevant because at the same time as the change of tactics on OPEC was being implemented early in 2020, authorities arrested Prince bin Nayef and the King's younger brother, Prince Ahmed bin Abdulaziz on suspicion of working to block MBS' accession to the throne. The key element here is that there remains a significant faction of wealthy, disenfranchised royals with their own support structures that need to be reconciled, potentially undermining the long-term sustainability of the leadership. MBS has escalated attempts to diversify the economy (currently 90% of exports[102] are oil and derivatives) via investment in unrelated sectors and the construction of new cities to house them. This transformation remains a significant challenge.

Iran remains the great bogeyman, with the Sunni-Shia conflict in the region providing mechanisms to use proxies to corral Tehran. In the last four years, the Kingdom has relied increasingly on US support: relations with erstwhile allies such as Pakistan have weakened, especially since the two countries found themselves on opposing sides over Kashmir. Riyadh has requested repayment of loans and Pakistan has sided with Malaysia and Turkey on Qatar, Khashoggi and Yemen. One of the main reasons for endorsing the UAE and Bahrain 'normalisation' with Israel appears to be to try to cement closer relations with the US, while hedging bets against Iran. The outlook is tough, because the chess pieces keep moving; Iran and China have signed a strategic deal, the US did not retaliate after Iran bombed Saudi refineries in 2019 and the clear winner so far is the United Arab Emirates, who appear to be very close to gaining parity with Israel following talks with the US about the purchase of F-35 stealth fighter bombers. In view of the Iran-China deal (below), that seems well-timed.

The Gulf States are all impacted by the new normal of the below US$40/bbl oil price. Although the headlines have focused on Saudi Arabia and its financial resilience, there are more considerations than just the oil price at play here.

[101]Source: IMF, Regional Economic Outlook: Middle East and Central Asia, October 2019.
https://www.imf.org/en/Publications/REO/MECA/Issues/2019/10/19/reo-menap-cca-1019 Statistical Appendix (projected for 2020)

[102]Source: Country Risk Framework – exports for CY 2019.

An intriguing possibility: the Iran-China strategic agreement

Although Iran is not a destination for mainstream investors, it plays a pivotal role in the region and is the driver of many moves on the geopolitical chessboard. There is a widespread and growing view that the current pandemic, coupled with increasingly dramatic economic hardship caused by the tighter sanctions could result in a popular uprising and the installation of a democratic, open country with friendly links to the West. We have already seen uprisings and they have been mercilessly put down. The regime, having observed the scenes of Arab Spring in Egypt, Tunisia and Libya, appears to have decided to be uncompromising. In my opinion, the more likely scenario for regime change is a reinvention of the theocracy with an overtly military dictatorship. The control structures are already there and the possibility of a flourishing alliance between China and Iran could reconfigure the economy. The deal was signed[103] in July 2020 and looks very similar to the China-Pakistan Economic Corridor (CPEC). It appears to commit billions of US dollars of investment in transport, logistics, telecommunications infrastructure, in exchange for discounted and guaranteed access to oil supplies for the next 25 years. There are mentions of close military cooperation, involving joint exercises and providing China's military with a significant foothold in the region. So far, the news has only come from Tehran. We should wait to hear formally from Beijing, but we should treat this as significant.

[103] Source: The New York Times, July 11, 2020 and updated July 22, 2020 https://www.nytimes.com/2020/07/11/world/asia/china-iran-trade-military-deal.html

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