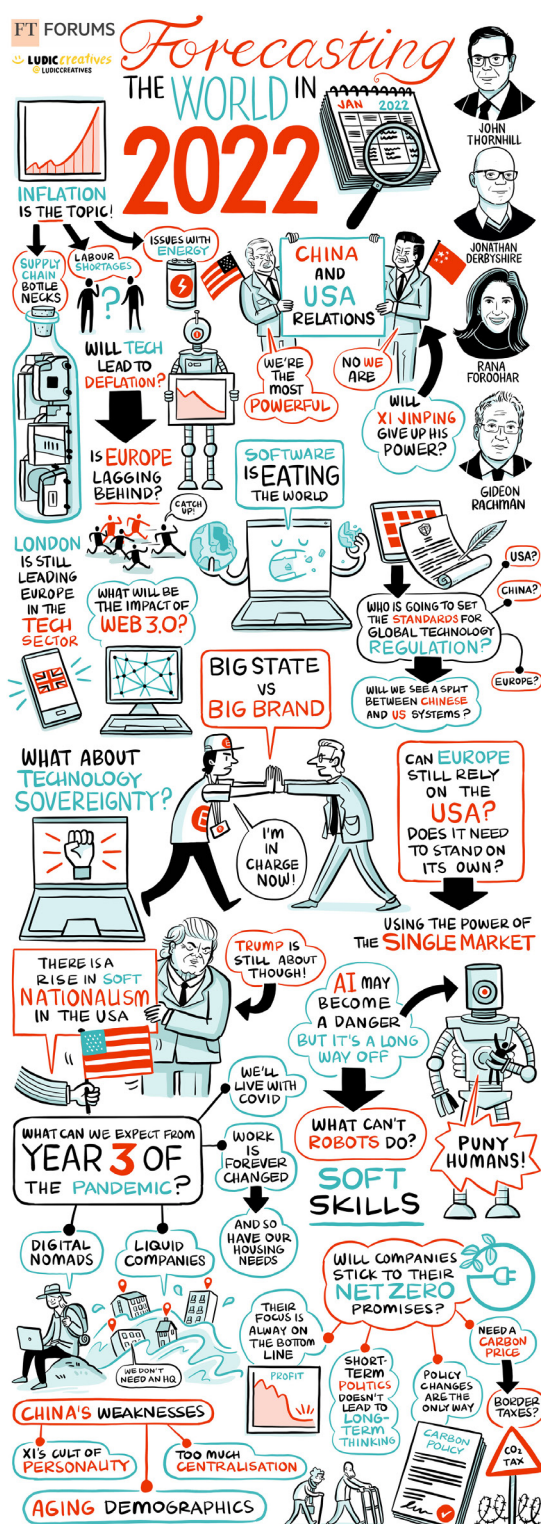


EVENT SUMMARY: FORECASTING THE WORLD IN 2022

18 NOVEMBER

SPEAKERS

Jonathan Derbyshire, Executive Opinion Editor, Financial Times
John Thornhill, Innovation Editor, Financial Times
Rana Foroohar, Global Business Columnist and Associate Editor, Financial Times
Gideon Rachman, Chief Foreign Affairs Commentator, Financial Times



In Forecasting the World in 2022, the latest FT Board Director Forum, Jonathan Derbyshire, executive opinion editor of the FT, invited colleagues Rana Foroohar, Gideon Rachman and John Thornhill to give their predictions for 2022.

Here are the highlights of the event.

THE GLOBAL ECONOMY: WHY THE BIG FEAR OF INFLATION MAY NOT COME TO PASS

Rana Foroohar said that “inflation is the topic right now, not only in the US but globally”. She said the causes of inflation were supply-chain bottlenecks, labour shortages, geopolitical tension affecting energy distribution and the continuing easy monetary policy.

She pointed to one deflationary trend that could rescue the global economy: technological innovation. In addition to continuing advances in artificial intelligence and the internet of things, she noted two striking developments: a 12 per cent rise in the number of robotic installations in the US in November and the imminent trial of a crewless electric cargo ship in Norway. She concluded: “It’s hard for us to see what the effects are going to be in the next six months or the next year. But I think, certainly within the next two to three years, we might see a profound deflationary trend that will counter some of the inflationary forces.”

GEOPOLITICS: WHY THE US AND CHINA ARE SET ON DIVERGENT PATHS

Gideon Rachman said that the relationship between the US and China was the geopolitical theme not only of next year but also the next decade.

He noted that while presidents Joe Biden and Xi Jinping held a virtual summit in November where they gave “tentative signs of a thaw” in relations by agreeing to talk about nuclear weapons and climate change, the big picture suggests that relations between the superpowers are still frosty and may be getting worse.

There are two reasons for this.

First, there is an “elite level” consensus among Republicans and Democrats that China is “the major threat to America’s position as the world’s most powerful nation”. This has come about because of China’s belligerence under Xi. Before Xi came to power it had been thought that China would become more democratic as it became richer. It is in fact becoming more authoritarian. In 2022, Xi will try to persuade the Communist Party of China to extend his time in office by five years and so “break the rule that applied to the last two presidents – that they leave after 10 years”. The country is also becoming more nationalistic: as its economy falters, Xi is using the “glue of nationalism” to hold the country together, “painting China as facing a hostile world and a hostile US in particular”.

Second, in the wake of Covid-19, China has taken “an increasingly singular approach” to tackling the pandemic by sealing itself off. “If you want to go to China, you have to go into quarantine for three weeks,” Rachman explained. As a result, Xi has not left China for two years and has not met any world leader face to face in that time. In Rachman’s view, this is “having a psychological effect”. According to Chinese friends, “the place feels more cut off, more turned in on itself, and more inclined to see the outside world as hostile”.

EVERY COUNTRY HAS ITS WEAKNESS AND VULNERABILITY. WHAT IS CHINA’S?

Foroohar said “centralisation”. Although China could control the flow of data, it can also control the flow of ideas, and that hinders innovation.

Thornhill said “inflexibility”. A former FT bureau chief in Moscow, he said that he liked the historian Yuval Noah Harare’s explanation for the downfall of the Soviet Union: “It was an information processing problem.” This, he thinks, could apply to China, too. “The more centralised authority becomes, in a political and in an economic sense, the more difficult it becomes to process information accurately and effectively.” As a result, the country could come “seriously unstuck”.

For Rachman, the source of vulnerability “goes beyond just centralisation”. He said China was becoming not just “a one-party state” but “a one-person state”, and suggested that “the personality cult around Xi” was not good for China’s long-term success. He noted how people had to download an app and answer regular questions on Xi’s thoughts — and the authorities notice if you have not logged on that day. In effect, the Xi app had replaced Chairman Mao’s infamous little red book.

ONE WORLD, TWO SYSTEMS: HOW THE US IS TRYING TO PUT THE SQUEEZE ON CHINA

Rachman said that the US was “trying ... overtly to hamper the export of Chinese technology around the world”. He observed that America’s success in persuading the UK to back out of agreements with Huawei, the Chinese leader in 5G technology, “was a rather important battle” to win. Now, the US was trying to persuade other allies, including Israel, to cut ties with China.

“Two tech universes” may emerge, Rachman said, “with countries having to choose to be in the American tech world or the Chinese tech world”. Already, he said, some multinationals were considering “a sort of crazy duplication”, establishing one tech system for communicating with Chinese companies and another for communicating with the rest of the world.

Farooqar said the “splintering” was “100 per cent happening”. Indeed, she said the dual system might not only affect technology but also the finance sector. She pointed to a new report by the US China Economic and Security Review Commission which recommended “some pullback” on capital flows between the countries. This could have explosive consequences. She said that many US companies, including major banks and fund management houses, “are going full force into China” because China is having a debt crisis and it needs capital. If the US government curbed this flow, it could lead to “an existential conflict” between “big corporations, big tech and big state”.

Farooqar also said that Chinese companies could come under increasing pressure to delist from US stock exchanges. In September, Gary Gensler, the head of the US Securities and Exchange Commission, said that the SEC could crack down on the trading of the shares of about 270 companies linked to China by 2024 unless they allow their auditors to be inspected by US regulators.

WHY AN OPEN INTERNET IS A STRATEGIC VULNERABILITY FOR THE US AND EUROPE

John Thornhill said China had “the strongest claim” to having what he called “technological sovereignty” because the government exerts complete control over the internet in the country. By contrast, the rest of the world, including the US and Europe where the internet will remain open, is “going to find it incredibly difficult to be assertive of its own right”. Indeed, the lack of control, as well as the reliance on digital technology, constituted “a strategic vulnerability” and “an asymmetric risk”.

To support his view, Thornhill quoted Henry Kissinger, the former US secretary of state (whom he interviewed recently about his book, *The Age of AI and Our Human Future*). Kissinger said: “The arrival of AI and its impact on geopolitics is going to be just as consequential as the development of nuclear weapons ... and is going to fundamentally reshape the balance of power in the world.”

TECHNOLOGY: HOW FINTECH, HEALTHTECH AND DEEP TECH COMPANIES COULD HELP EUROPE BECOME RELEVANT AGAIN

Thornhill said that Europe was changing from being “a net exporter of history” to “a net importer of history”. In other words, it was no longer shaping the rest of the world but being shaped by it.

He said this was particularly evident in the realm of technology: “On a macro tech level, Europe is subject to a lot of external forces that are going to shape its destiny.” He pointed to the case of ASML, the Dutch chipmaker, which is “caught in a tussle between the US and China over where it supplies its equipment”. He also pointed to the state of the European stock markets, which are “dominated by old economy companies, notably banks, fossil fuel companies, mining companies” and which have few of the technology companies that will write the future.

Having said this, Thornhill identified a silver lining in the shape of micro tech, the startup companies operating in fintech, healthtech and deep tech. He pointed to a report by Sifted, the FT-backed news outlet that focuses on Europe's private equity industry, which showed that since 1990 Europe has produced more tech unicorns (companies with a valuation of more than a billion dollars) than China: 296 in Europe compared with 276 in China.

From this he concluded that "at that micro level, I think there is hope of Europe becoming more globally relevant again"

EUROPE'S QUEST FOR WHAT EMMANUEL MACRON CALLS "STRATEGIC AUTONOMY": WHAT DOES THIS ACTUALLY MEAN?

Rachman said that what President Emmanuel Macron of France called "strategic autonomy" is about how the European Union "should have its own approach to the world and be able to back that up with the kind of basic tools of power, whether that's economic or even at some point military". It should become "a third player", with the "three power poles" being Washington, Beijing and Brussels.

This new thinking had emerged because of an increasing belief that the US is no longer a reliable partner.

This view of the US took root during Donald Trump's presidency. As Rachman observed: "You can't unsee or unthink what happened there, and he may well be back." He added that "the EU felt that had he been re-elected, Trump might have attempted to break up the EU".

This view has since developed as the US has become "preoccupied" with China rather than with European security issues. It had shown (as it did when it hurriedly left Afghanistan) that "it is prepared, as most states are, to act pretty ruthlessly in defence of its own interests and leave the Europeans trailing behind".

"Intellectually," Rachman said, the strategy "makes sense". The challenge will be to implement it, given that there are 27 countries with different views. In their favour, he said, the EU countries were not "geopolitical nothings" and they have a major strategic asset: a single market that is bigger than either the US or Chinese markets.

TRUMP, AMERICAN NATIONALISM AND DEMOCRATIC WOKENESS: WHAT IS AT STAKE IN THE US MIDTERM ELECTIONS

Is the Republican party a centre-right party? Or is it an essentially Trumpian party? That is a question posed by Janan Ganesh, the FT chief US political commentator, in a recent column. Similarly, is the Democratic party the party of the economy or the party of wokeness? The answers to these questions may be answered in the midterm elections in November.

On the first question, Foroohar noted that Trump was mobilising his political supporters. "Trump is still all over the place. He's definitely out there. He's in the policy mix." But whether or not Trump staged a comeback, she said his legacy would be "soft nationalism", something she described as "Trump without the real ugliness".

On the second question, she said that the Democrats under Joe Biden were undergoing "a real existential crisis" over whether the party should worry about identity or the economy. She suggested that it would be "very, very dangerous for Democrats to put wokeness at the top of the agenda because politically, it simply does not play in a lot of parts of the country, even among Democrats".

WHAT DO THE PANELLISTS THINK WE CAN EXPECT IN THE THIRD YEAR OF THE PANDEMIC?

Rachman said that China's extraordinary commitment to a zero-Covid policy meant that, unless it changed its approach, "we're going to have a bifurcation between the China world and the rest of the world".

Foroohar said the effect of the pandemic on what she calls "the geography of work" would become clearer. People had started to return to the office but not in every company or in every business sector.

The effect on the real estate market, and especially commercial real estate, could be significant. “We’re going to see these sorts of micro booms and busts, which we are already seeing in New York: Brooklyn is booming, Manhattan not so much.” She said: “It is really difficult to see where things are going to go. It is a fascinating moving target.”

Thornhill said the world’s reliance on digital technology would be increasingly evident in the third year of the pandemic. He said that prior to the pandemic Microsoft’s internal forecasts had suggested that spending on technology would account for 10 per cent of global gross domestic product by 2030. Microsoft had reworked the numbers and brought forward the date to 2025.

This digital transformation was reflected in what he called “eglobalisation”. Thornhill pointed to the fact that the prevalence of digital technology was giving rise to “digital nomads” who can work anywhere and “liquid workforces” of people who work for their companies all over the world.

CORPORATIONS HAVE BEEN RUSHING TO DECLARE THEIR COMMITMENT TO NET ZERO EMISSIONS

TARGETS. WILL THEY STICK TO THEIR COMMITMENTS?

Farooq said she was “pretty optimistic”, although the US government should “put a price on carbon” to ensure that polluters in China (as well as the US) honour their commitments.

Thornhill was less optimistic. He said: “I don’t think that companies are going to do nearly as much as they need to do. I think they are, despite all the talk about becoming environmentally conscious, driven by profits.” As a result, he said “we are still on this inexorable move towards a warming economy”.

Rachman was also gloomy and noted that political systems did not allow politicians to push for the necessary reform. “When governments begin to sniff electoral defeat, they’ll back off. Look at the problems that Macron had when he attempted to raise energy prices, partly on environmental grounds. He had a year of social turmoil. The structure of our capitalism and our political system are too short term. They’re not structured to deal with issues like climate change.”