

FORECASTING THE WORLD IN 2023

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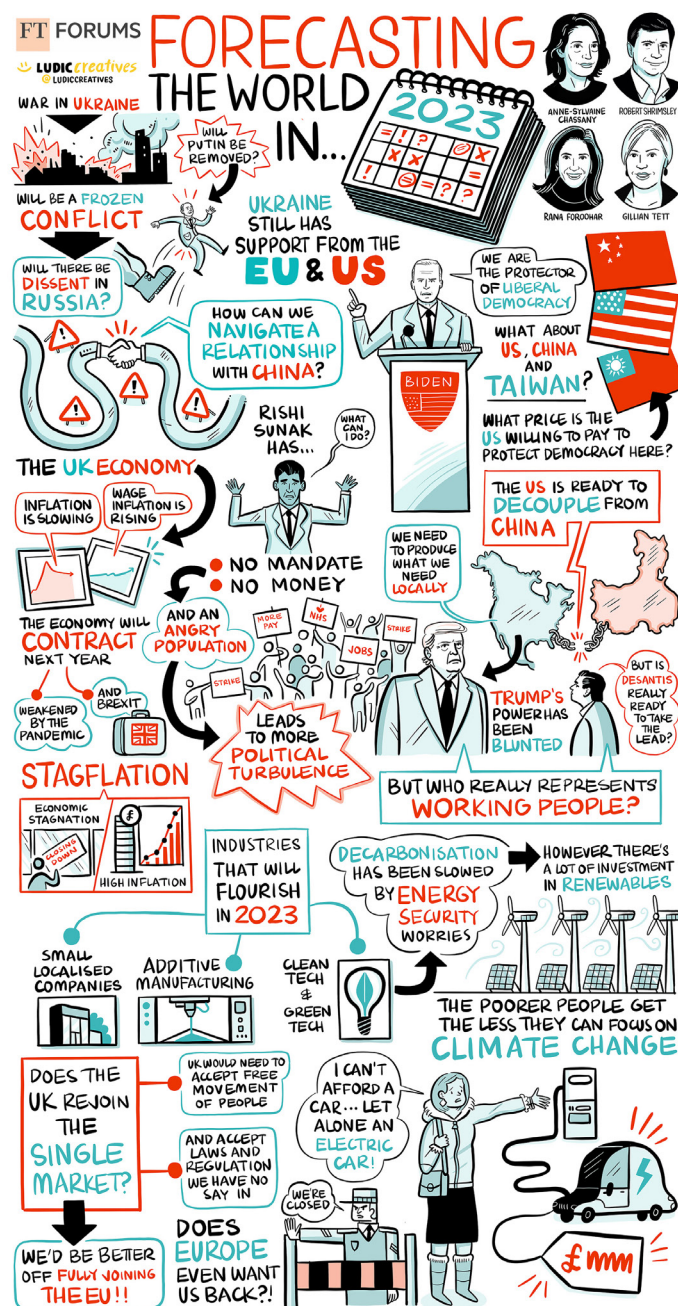
SPEAKERS

Anne-Sylvaine Chassany, world news editor, Financial Times

Rana Foroohar, global business columnist, Financial Times

Gillian Tett, chair of the editorial board and editor-at-large, US, Financial Times

Robert Shrimpsley, UK chief political commentator and editor-at-large, UK, Financial Times



At this FT Forums event, the panel discussed its predictions for the world in 2023 and the trends that will shape the macroeconomic and business landscape. Here are the highlights.

WHAT NEXT FOR THE WAR IN UKRAINE?

Tett predicted “a frozen or semi-frozen conflict for a long time, causing tremendous economic damage”. She said much of this decade was already marked by “Vuca” – volatility, uncertainty, complexity and ambiguity.

“Ukraine exemplifies that, because the range of possibilities is very wide,” she said, suggesting that the west could at some point lean on Ukraine to seek a settlement. This is unlikely however, due to the “rising sense among Ukrainians of a desire to keep fighting for territory”. “It is also hard to see the Russians settling early given that the rhetoric on Russian television is getting more and more nationalist and aggressive.”

Tett said one thing to keep an eye on was the “signs of growing tension in parts of the Russian military establishment”. “You can’t rule out some kind of upheaval in the Kremlin,” she concluded. “It is unlikely but it certainly is a possibility.”

THE NUCLEAR THREAT

“The important thing about a nuclear threat is that a tactical nuclear threat, as opposed to a strategic one, requires a chain of command that needs several people at several levels to agree to carry out orders,” Tett said.

While it is a possibility, “we cannot assume it would actually be something Putin himself would feel confident enough to execute”.

WESTERN SUPPORT FOR UKRAINE IS LIKELY TO REMAIN STRONG

“The hard, cynical fact” is that parts of the west assumed, early in the conflict, that there would be a swift Russian win, Shrimpsley said. These countries “did not commit to Ukraine sufficiently, hoping this problem would resolve itself in one way or another”. As Ukraine’s position grew stronger, it became apparent that countries in Europe needed to take “a full, committed position”.

“There is significant work underway in a number of European nations to future-proof themselves against dependence on Russian energy,” Shrimpsley said, adding that there was “a reasonable degree of unanimity within the EU”.

Asked about Giorgia Meloni’s appointment as prime minister of Italy and whether this could change things, Shrimpsley said that ultimately Italy “has bigger fish to fry in terms of its relations in the EU” and that it was unlikely to go out on a limb if the EU remained solid in its support of Ukraine.

HOW WILL THE POLITICAL DEBATE AROUND UKRAINE UNFOLD IN THE US?

This is becoming a big issue, Foroohar said. There is a split Congress and Republicans are going to start to use the burden of providing aid to Ukraine against President Biden. “Particularly if the US goes into a recession, even if it’s a mild recession, the financial pressure issue is going to grow,” she said.

The US is positioning itself as a “protector of values” in a world where you have a “one world, two systems paradigm”, Foroohar added. “What the US is selling is ‘we are the protector of liberal democracy’. I think Ukraine is going to be a big tell on that front.”

WHAT IS NEXT FOR THE US AND CHINA?

Biden and Xi meeting in person was significant, Foroohar said, “but really what we need are some red lines around Taiwan”. There were two factions in the US administration. One is willing to go to war to protect liberal democracy while the other believes that “unless there is a global coalition of allies – a shaky proposition at best – [the US] cannot survive a hot conflict with China, economically or politically.”

In the short term, taking steps to better define export controls could give a breathing space to all sides. “I think that at some point the US is going to have to grapple with this existential question: ‘If Taiwan goes back to China, what will the US response be?’” Foroohar asked: “Is it really feasible for the US to say ‘we are going to protect liberal democracy and Taiwan at all costs’? I’m inclined to say no.”

Is a Chinese invasion of Taiwan likely in the near future? “In some ways, the Ukraine war is being used as a kind of beta-testing, observational experiment for the Chinese. They’re seeing what does and doesn’t work in terms of the Russian response,” Tett said. “There is no doubt that China is looking to insulate the economy against future sanctions in a way that Russia hadn’t before it went into Ukraine.”

The good news is that China has also seen how much resistance Russia has faced. This could act as a deterrent. “The other interesting aspect is that Taiwan and others are learning from the Ukrainian side about what does and doesn’t work,” Tett said. She cited the difficulties caused in Ukraine by Elon Musk’s Starlink, which has “left the Taiwanese very nervous of introducing Starlink into their own system”.

SHOULD EUROPE AND THE UK SHAPE THEIR OWN RELATIONSHIPS WITH CHINA POST-BREXIT?

“Ever since the financial crisis, two major trends have affected geopolitical thinking,” Shrimpsley said. “The first is the diminution of the view that liberal democracy always goes hand in hand with greater prosperity and economic success. You’ve also seen it more recently as the undermining of the argument that deeper economic engagement and entanglement prevents geopolitical risk.”

He believes that the issue comes down to what position China wishes to take with Europe. There is the possibility, as we saw with the trade treaty, to separate Europe a little from the US, he said. However, one effect of the Ukraine conflict has been to “pull the US back into Europe”.

Shrimpsley believes that Rishi Sunak, the UK prime minister, is more of a globalist, doesn’t wish to see disengagement with China and would like to find a way to navigate trade and commercial relationships. “He is [however] a relatively weak prime minister and he has a substantial body of China hawks in his party who will hold him back.”

Shrimpsley said: “I do think there is a possibility for Europe to forge its own way on this.” However, the dominance of America in terms of commercial relationships “makes it very hard to defy a US government that is really determined to be hawkish [in terms of sanctions on] China. So Europe can plough its own way a little bit, but I wouldn’t expect extraordinary deviation”.

WHAT DO THESE CONFLICTS MEAN FOR BUSINESSES?

In the US many multinational companies (in tech in particular) are working behind the scenes to “dampen the edges of decoupling” [with China] while also “trying to build resiliency in core technologies” Foroohar said. This is something she has argued for for some time. “We had 92 per cent of all high-end semiconductor chips in the world made in one very politically contentious island – that was never a good idea.”

Mid-sector companies are looking at how to re-engineer their supply chains, working out if production can be done more regionally or with allies. Meanwhile many smaller and mid-sized companies that have remained in the US are now outperforming those listed on the S&P 500. “That speaks to the fact that there is going to be some level of localisation and regionalisation,” Foroohar said. “Some companies are well poised to exploit it.”

WHAT IS NEXT FOR INFLATION?

Inflation will recede in some areas and we are seeing some wage inflation, which is good news, Tett said. However, “the bad news is that even if central banks cap rates, they’re not going to suddenly bring [inflation] back down again to the levels we saw during the past decade”.

She also warned that we are likely to see “more and more pain feeding through to people” with mortgage payments and pension funds affected by higher interest rates. Discontent and anger over the cost of living will have a big effect, potentially causing political upheaval.

THE UK ECONOMY AND THE POLITICAL LANDSCAPE IN 2023

Chancellor Jeremy Hunt predicted that the UK economy would contract by 1.4 per cent next year but see growth in the following two years, Shrimley said. The UK has been out of sync with Europe for some time, he added. This was partly due to the pandemic and the timings of various lockdowns, but the UK has also been weakened by Brexit.

“From 2021 to 2024 the UK is expected to see a 7.1 per cent fall in household disposable income. Living standards are really taking a hit.” There are also increasing demands on public expenditure, with healthcare and social care in crisis.

This is happening against a backdrop of political turmoil. “You have the sense of a government which even its own supporters believe is not likely to win the next election,” Shrimley said. There is an “angry populace, increasing pay disputes and public service unrest”.

Sunak is likely to remain as prime minister, he said, as voters would be unwilling to accept yet another change in leadership.

WHAT COULD 2023 BRING IN TERMS OF US POLITICS?

While Trump has thrown his hat into the ring for 2024, “I would be very surprised if he got the nomination”, Foroohar said. His initial power as an “outsider” has been blunted and legal issues mean that many Republicans see him as toxic. The party now needs to work out how to “walk the line” between traditional conservatism and Trump’s “make America great again” politics.

“The bigger existential issue for the 2024 elections is ‘which party is going to represent working people?’” Foroohar said. “Biden is a very pro-labour president. But he’s got to walk a fine line and, within the administration, the centrists are now ascendant.”

If Biden runs in 2024, Trump is likely to run too, Tett predicted. He regards it as a “grudge match”. This could be a good reason for Biden to run, as many Democrats believe Trump will never win another election. People are backing away from Trump, she said, citing the example of Ivanka, Trump’s wife, failing to support him when he announced his intention to stand.

If Biden was to run, his choice of VP will be critical, Tett said. Democratic voters do not like Kamala Harris.

Foroohar agreed that “Biden would be stronger with a different VP.” Despite the strengths of some of the female candidates “there really is still a block at the highest level of US politics”, she added. “It’s tough to be a woman.”

QUESTIONS FROM THE AUDIENCE

Which industry sectors will thrive in 2023, and which may struggle?

According to Foroohar, deglobalisation and regionalisation mean that smaller companies will have their moment. This movement also “disfavours global companies, particularly in the tech sector”.

Clean tech and the green transition are highly incentivised and will be a strong theme for the coming year. Additive manufacturing, such as 3D printing, is also going to have a “huge moment.”

“Ultimately, more localised industry is going to become for business and for industrials what the iPhone was in 2007,” Foroohar added.

What is next for the climate change movement? Will progress be hampered by global unrest?

According to Tett, the bad news is that “Ukraine has definitely caused some governments to back away from the accelerated pace of decarbonisation, because they want energy security”. Across the US, policy varies hugely across the states, with many red states campaigning against what they see as “woke capitalism”.

The good news, however, is that many companies and many governments remain committed to green measures and the market is growing rapidly. There has also been a boom in investment in renewables.

There are deeper reasons for pessimism at the “public policy end”, Shrimpsley said. “It is very clear that there is a correlation between the affluence of a country and the readiness of its population to accept some of the measures necessary to drive climate change policy.”

“What would worry me is that if we have a sustained period of economic difficulty, that the prioritisation of climate change policies by governments will diminish.”

Should the UK rejoin the single market?

“The economic damage that has been done to the UK by no longer being part of the European single market is very substantial,” Shrimpsley said. “But one has to remember that Brexit was never an economic project, it was primarily a political project.

“Although there’s a very strong economic reason [behind] rejoining the single market, in some senses, it makes less sense than actually rejoining the EU full stop, because you would, at least at that point, have input in the legislation.”

It’s also important not to underestimate Sunak and how ideological he is, Shrimpsley added. The prime minister was one of the original Brexiters. “He believes in it economically, as a vehicle to get into a low tax, low regulation state.”

Will the US economy be rocked by so many coastal state companies relocating to Texas?

Post-pandemic, red states rebounded the quickest, Foroohar said. For the past three years, the big migrations have been south and west. These are also places where “a lot of European businesses are starting to relocate more operations because of lower labour costs and lower energy costs”.

“We now essentially have a patchwork economy in the US”, due to a Supreme Court ruling taking away legislation that forces states to abide by single federal rules on issues such as environmental standards, Foroohar said.

This means that a company located in Texas wanting to do business in New York or California faces different legislation. “That creates a real legal minefield.”

Is hybrid work here to stay?

According to Tett, 2023 will be all about hybrid working “with in-person dialled up”. We won’t go back to the style of office-based work we saw before 2020.

“One thing I’m watching very carefully is whether this leads to more white-collar outsourcing of jobs,” Foroohar said. If you can do a job remotely, you can do it from anywhere. “I think that is something that is going to create a whole new political challenge” in the US and in other rich countries, she said.

Is the panel hopeful for the future? What are the causes for optimism?

Tett said that in her view, what is occurring right now is “a dramatic zeitgeist shift”. With these dramatic changes there is always opportunity, she said.

“We are at the end of the neoliberal era,” Foroohar agreed. “We’ve seen the end of cheap money, the end of cheap energy, the end of cheap labour. I think I am hopeful because we are at a once-in-a-lifetime economic pendulum shift.”

Shrimpsley struck a more sombre tone, noting that “climate change will drive ever greater migration crises which create political instability”. He said he was unconvinced that the world is dealing with climate change at the speed required. “I think actually, the next few years are going to be pretty tough,” he said. “I think it’s going to be a tough period for people who’ve been used to certainty; the people who’ve been used to enjoying a relatively affluent life.”