***International policy trends & value management implications***

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*Key discussion topics and themes are being revisited. Trends and their relevance for corporate leaders and a company´s value management agenda are pointed out.*

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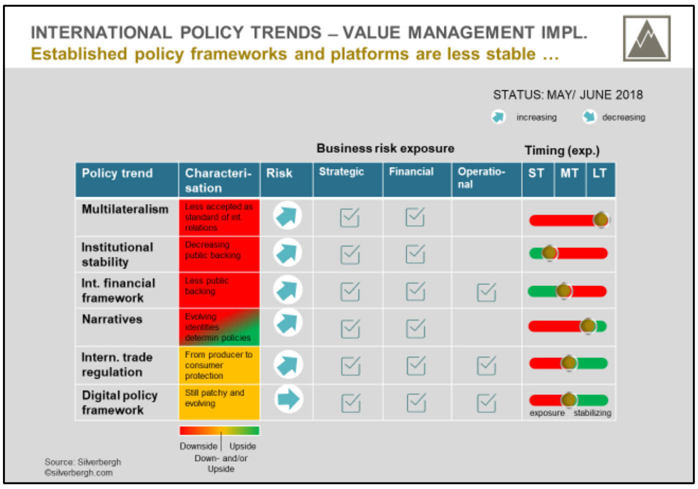
## Introduction

*Global Solutions is a format established by the German Government during the German G20 presidency in 2017. Research based policy advice is provided by a research and policy network (T20) to G20 leaders as they prepare for negotiations in Argentina (2018) and Japan (2019). The summit was hosted in Berlin and was attended by policy experts, government representatives, multinational organisations, corporates and NGOs. We provide some impressions on key discussion topics and themes which are of relevance for a company's value management agenda.*

## Key trends discussed …

Across several works streams, forums and panel discussions some views were broadly shared. Key international policy trends described below are not entirely independent. However, they capture different aspects of the policy discussion today and provide angles how to identify risk exposure and risk mitigation.

- **Multilateralism:** The believe that 'multilateralism' is a key value of international relations is shrinking. Not only are perceived national interest in focus and isolationist policies spreading. Also, procedural standards, protocols and rituals in international relations are no longer taken as granted. Language and communication is eroding. This has a destabilizing effect and is a mounting hurdle to balance conflicting objectives of nations and policy stakeholders.




- **Institutional stability:** Institutions can provide a balance to evolving conflicts as they offer a well-established platform and formats which have been accepted by member states. From a a legal perspective, member states have entered into legal commitments. These commitments are binding and cannot be easily terminated unilaterally. However, several institutions have lost influence, are no longer effective as influential members have withdrawn their support. There are numerous examples. Almost all major international institutional frameworks or institutions are confronted with challenging questions regarding their legitimacy, validity or effectiveness: e.g. WTO, UN (and i.e. UNESCO), the NPT (Non-Proliferation Treaty) with Iran, the Kyoto Protocol, NATO, EU.

- **International financial framework:** It is already conventional wisdom that in the next financial crisis we will face a 'lack of instruments given current fiscal and monetary policies (QE: quantitative easing)'. Additionally, some senior policy makers voice concerns that unlike in 2007/08 the mandate provided by the electorate to bail out financial institution last time will be lacking next time. This will also limit the solution space to cope with a next crisis.

  As a starting point for a potential crisis, mounting credit volumes esp. in the US were less of a concern. The instability of the Italian banking system combined with a lack of convincing regulation and sliding fiscal discipline worries a broad range of experts.

From as fiscal perspective, taxation frameworks need to change. Personal and corporate income taxes linked to traditional industrial activities as a share of total tax revenue are expected to decrease.

- **Narratives:** Narratives are slogans defining and describing the identity of social groups. There is wide spread agreement that these narratives are ‘increasingly influential and powerful’ changing identities, political realities and as a consequence policy frameworks. Nobel Prize laureate in Economics, Georg Akerlof, distinguished between ‘protector’ vs. ‘fulfilment narratives’. Examples of narratives are ‘Yes, we can ...’, ‘America first’, or ‘Nobody cares about us’. These narratives evolve quickly and spread fast also due to digital communication. Not only politicians but also business leaders are directly affected and need to decide how to react to or proactively address these narratives.
- **International trade regulation:** Although recent events suggest that producer induced (protectionist) trade policies still rule trade policy making, the wide-spread opinion exists that this is changing. Consumer based trade policy regulation becomes more important. Recent examples are data privacy rulings or international trade agreements like the Transatlantic Trade and Investment Partnership (TTIP) which have been significantly influenced by consumer opinion.
- **Digital policy framework:** Surprisingly this has not really been a discussion topic during the summit. Other than data privacy which the EU recently regulated, and which impacts digital business models, policy stakeholders seem to struggle with understanding potential policy implications of ‘digital’.

  As mentioned above briefly, the tax system will be affected. Other examples are standard processes in financial services, intellectual property rights exposed to additive manufacturing technologies e.g. 3D printing, security policies leveraging evolving digital security infrastructure and biometric information. In this area more work will be conducted.

## ... suggest a less stable international policy environment going forward ...

The expectation is that across almost all international policy trends, volatility (of potential outcomes and impacts) is increasing.

For ‘digital policy framework’, experts are undecided how this will evolve. Hence, there is a perceived uncertainty.

If agreements would be reached this would a new baseline but not a risk. Therefore, for this policy scheme unlike as for the other policy schemes, risk perception remains unchanged.

## ... but with changing potential impact over time

**Short- and long-term impact:** Most importantly decreasing ‘multilateralism’ is already impacting international relations, economies and businesses today. The expectation is that this will also have long-term consequences on several policy areas. Businesses are exposed to several policy areas beyond trade policies.

**Latent medium- to long-term impact:** Some policy trends are widely discussed but have not exhibited broader short-term impacts yet. However, the assessment on their risk realizations varies from ‘respect’ to ‘fatalism’. ‘It is not a question that these risks will materialize it is more a question when this will happen ...’. In this category are ‘Institutional stability’ and ‘International financial framework’.

**Short-term risk with the potential to stabilize long-term:** In this area are two policy trends. ‘International trade regulation’ is a key trend for which almost on a weekly basis risk realization can be perceived. Knock-on effects between different stakeholders and across different policy areas (outside trade policies) lead to a challenging situation framing and evaluating the risk. The hope remains that stability can be reached. A ‘new equilibrium’ however might look different from today´s situation. New alliances of stakeholders, new policy frameworks and new institutions might evolve over time most likely in the context of new geopolitical realities and security frameworks.

‘Digital policy framework’ is associated with risks as not much has been agreed to date (e.g. cross-border autonomous mobility). If, however ‘digital’ becomes more a reality framed as policies rather than a concept the expectation is that risk perception will decrease.

## Outlook

In the recent past, some industries have experienced already quite some realization of these risks within the key policy schemes mentioned above. Industries most impacted are e.g. financial services, commodities, agriculture, manufacturing/ automotive.

Some of the above-mentioned sectors can adjust in some areas. But that takes time and comes at a cost. They have faced immediate revenue losses (but also increases) as a result of international policy conflicts and adjustments.

If infrastructure sectors or long-term infrastructure like investments are impacted, corrections ‘after the fact’ are even more expensive and much more difficult to achieve.

Therefore, it is important to realize that the nature of international relations is changing and that businesses must cope with this new reality. As the ‘new normal’ will be less stable, businesses are well advised to take a more active role to integrate international policy induced volatility into their business rationales.

This might imply, adjusting the portfolio mix of businesses or recalibrating an international value chain and manufacturing footprint.

Supporting activities might also be considered e.g. operational risk mitigation, hedging or forward sales, tighter cash flow management and treasury as well as targeted insurance protection (e.g. for exports).