

PREPARING FOR THE POST-COVID WORLD

J.P. Morgan International Council Discusses the Future of the International System, the Future of Work, and China's Role in a Post-COVID World



SUMMARY

A new U.S. president will soon take up residence at 1600 Pennsylvania Avenue. With a change in Washington comes an opportunity for fresh approaches to both the immediate health crisis and the myriad, attendant challenges contributing to a broader political, economic, and societal re-shaping of the post-COVID world order. J.P. Morgan's International Council—a coterie of global business leaders, former Prime Ministers, and ex-cabinet officials—convened several times throughout the summer and fall to discuss what lies ahead. Among the many expert voices

were former Prime Ministers Tony Blair and John Howard; CEOs Jamie Dimon (JPMorgan Chase), Joe Kaeser (Siemens), and Alex Gorsky (Johnson & Johnson); Former Secretaries of State Condoleezza Rice and Henry Kissinger; and former Secretary of Defense Robert Gates.

In recognition of the fact that business leaders have a heightened responsibility to help drive solutions in these unprecedented times, we are sharing some of the key takeaways from the Council's discussions in order to highlight areas that may carry elevated risk or opportunity during the critical weeks, months, and years ahead. While not all of the specific views expressed in this paper were shared by all Council members, some frequent observations did emerge:



The new president urgently needs to renew and reawaken

international cooperation and to do so in the enlightened self-interest of the United States and its allies. The absence of such cooperation has worsened the COVID-19 crisis for each individual nation. In a world where so many challenges are blind to national borders, it is essential to build an international system that is again effective.



Business leaders have a responsibility to play a part in managing the vast changes coming

to the future of work—by opening up greater opportunity for diversity, supporting training and skills, ensuring digital preparedness, and engaging with policymakers from the point-of-view of the public interest, not simply narrow business interests. This is especially needed as the effect of the COVID-19 crisis will be to deepen structural inequalities. Business must be an active voice giving solutions, not a passive reactor to events.



The rising confrontation between the United States and China

poses a significant challenge. The United States and Europe must re-establish strong transatlantic links and together confront and compete with China across a range of issues, while also seeking to cooperate on issues of shared concern like climate and global health.

COVID-19 PRESENTS AN HISTORIC CHALLENGE

Exogenous shock, black swan, game changer. There are many ways to describe a crisis—those low probability, high risk events that render previous assumptions flawed and create non-gradual, non-contiguous breaks in the course of history. Major, disruptive crises are rare but bring deep and lasting impacts. The COVID-19 pandemic will likely have generational consequences across most aspects of society, from the everyday to the existential. Indeed, our geopolitical realities have rarely looked as uncertain as they do today. The pandemic is multiplying this uncertainty; accelerating some trends, complicating others, and exacerbating the already raw tensions that reside both within countries and between them.

In light of the historic challenge posed by COVID-19, J.P. Morgan executives, including CEO Jamie Dimon, and the J.P. Morgan International Council, chaired by Tony Blair, met virtually alongside other leading business and civic leaders to assess and make recommendations on three interrelated, high-stakes issues that have been altered by the pandemic: **(1) The future of the international system; (2) the future of work; and (3) China's role in the world.** While the pandemic did not create these challenges, it may have changed the realm of what is possible to address them. Understanding the shifts in each of these areas will be essential to navigating the new international landscape and achieving an inclusive, global economic recovery.

FUTURE OF THE INTERNATIONAL SYSTEM

In addition to unleashing vast human tragedy, COVID-19 has exposed the international system as neither fit-for-purpose nor fully trusted by governments and their populations. As it emerged, the virus encountered a system already suffering from decades of underinvestment, an absence of U.S. leadership, and a growing perception that the benefits of globalization have not been fairly shared. The confluence of these factors, each significant in their own right, presents the greatest challenge to the international system since its inception over 70 years ago.

The implications for business are serious and consequential. At an operational level, the breakdown of the system represents a long-term risk to businesses that rely on a level-playing field and rules-based order with international standards for everything from trade and transportation to safety and data. At a structural level, the Council's public and private sector participants both emphasized that businesses can only reach their full potential in the context of a vibrant and inclusive global economy. Growing inequality—a problem that will intensify with the coming wave of pandemic-driven poverty—is not only undermining global political institutions but economies as well. Business leaders must realize that they not only have a moral obligation but also a commercial stake in advocating for a fairer, more equitable system. Unless and until the core problem of inequality is

addressed, all other overarching objectives and desires will remain elusive. With this underlying truth established, the Council offered several other key observations related to the future of the international system:



1. Need for investment and reform.

National-level responses to the pandemic have far outpaced coordinated global ones. There are notable exceptions, such as the commitment to vaccines for

the African continent, but many will look back at this time as a test that our international system and multilateral fora have failed. For too long, the health of our institutions took a back seat to emergent challenges. Many were already creaking under the weight of fractured geopolitics and an increasing East-West divide. Successive U.S. and allied governments failed to invest in their care and modernization. The system, in turn, failed to keep pace with evolutions in our societies, economies, and technologies. Today, we see the consequences: underfunded and antiquated institutions unable to meet the urgent needs of the COVID-19 pandemic. Retreat is not the answer, nor is burning down the current system and starting anew. If anything, our sad reality demonstrates why global institutions are so badly needed and why investment and reform are the best solutions.



2. Importance of U.S. leadership.

The near-total absence of American leadership, coupled with the nationalist approach of too many countries, have come at the expense of a strategically coherent, international response to the

pandemic, ensuring the marginalization of organizations like the G20 and World Health Organization (WHO). Among other lessons, the COVID-19 crisis should serve as a forceful demonstration of the importance of U.S. global engagement—to health, business, trade, and economics. As mentioned, enhanced global governance will be key to righting the ship. While the original system was set up by a collection of like-minded nations, the current make-up of those at the top reflects significant ideological divergence. Strong U.S. leadership is, therefore, a prerequisite for reform. Neither China nor Russia are trusted with the role and medium-sized powers have so far failed to rally sufficient support around a clear agenda. The world order does not work without the United States at the table.



3. Role for G7/G20 in COVID-19 response, vaccine planning.

The G7/G20 should be considered the forums of first resort for galvanizing a rejuvenated COVID-19 response. Within these Groups of the world's most powerful countries, there must

be strict focus on a discrete set of issues aimed at tackling the most pressing medical and economic challenges. In the short-term, executing a plan for internationally coordinated vaccine development and distribution will be a defining test for the future of the system; it is one we must pass. A relatively orderly and equitable approach could signal better days ahead; a free-for-all could spell disaster. The G20 will likely be constrained on issues where the interests of the U.S., China, and Russia conflict. The first challenge then is to see if the G20 can agree on a plan for the fair, worldwide distribution of a vaccine, as and when discovered, and treatments for COVID-19, including funding support for less developed economies to deploy the same. If international capacity to deal with the current crisis is going to be built, it needs to start sooner rather than later, before nationalist lines calcify and the gap between the haves and the have nots grows even wider.



4. Post-pandemic macro vulnerabilities are real.

On the economic front, the policy mix adopted by richer countries is either not possible or riskier for many emerging or developing countries.

In mature economies, the macro policy response to the pandemic has involved putting the foot to the floor on monetary policy plus fiscal largesse. Central banks have become buyers of last resort for government debt. That has allowed finance ministries to run exceptionally high deficits as tax revenues have fallen and spending has increased. The flow of credit to companies has been maintained by central banks and finance ministries. That same policy mix is either not possible, or carries substantially more risk, for most emerging or developing countries. The G7/G20 should, therefore, act to establish rules for the restructuring of debt in developing and some emerging economies and ensure international financial institutions like the IMF have sufficient resources to support countries that need it. Failure to plan for debt sustainability will result in bigger problems down the line and could force the most vulnerable nations to turn to burdensome debt financing from predatory lenders. Healthy economic growth is the key ingredient for addressing inequality.



5. Opportunity to re-balance supply chains.

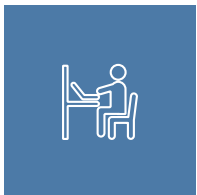
The pandemic has revealed risks from long supply chains and the hyper-synchronicity of global demand and led to calls for diversification and reshoring. The idea of relying on a

foreign power for the supply of vital protective equipment will be unfathomable in the future. This is a positive course correction for certain essential products that have become overly dependent on single-source, foreign suppliers. There is a risk, however, of swinging too far in the other direction. The robustness of complex supply chains is not improved by reshoring when shocks are as likely to be national as global. Instead, vulnerabilities are lessened by avoiding single-supplier dependencies and building in redundancy to allow for flexibility. Reshoring might be viable for the largest countries, but for most an open trading system for essential goods is the only option. For these, in the absence of multilateral solutions, creating trusted networks for supply chains among like-minded nations may be the best approach. The G7/G20 should simultaneously encourage

discussions to avoid the economic downturn acting as a spur to protectionism and promote greater predictability in world trade relations.

FUTURE OF WORK

The fourth Industrial Revolution is now upon us. Even before the pandemic, it was widely acknowledged that we have precious little time to successfully adapt to the technological transformations underway in our societies. The twin shocks to global health and economies caused by COVID-19 shortens this timeline even further. Digitization, artificial intelligence, remote work, automation, and other advancements are accelerating as a result of the crisis and revolutionizing the way we learn and do business. While these trends have the power to enhance quality of life and productivity for some, they will also introduce changes that, if not properly prepared for, will enflame our (already substantial) current challenges. This is yet another area where international cooperation and planning is needed but largely absent. The Council observed the following regarding the future of work:



1. Changes to the workplace will be lasting and reach beyond business.

COVID-19 forced industries to quickly adopt remote work and automation. Many employers were made to confront what they had neither

fully embraced nor believed: that large-scale remote working is both possible and effective. There will be neither a quick nor complete return to business-as-usual even after a vaccine is developed. For those businesses that survive, the move to remote work introduces risks to innovation, culture, employee well-being, learning, and customer expectations. Some components may emerge stronger or weaker but all will be altered.

Changes to the workplace will also introduce broader societal impacts. Major industrial shifts to aviation, retail, and hospitality, for example, could have potentially significant downstream consequences for small businesses and cities. The office, itself, acts an essential societal glue and center of social life. As remote work becomes increasingly accepted, public and private sector leaders must think through the fact that, for some, the workplace is the only opportunity to engage and connect with people who look, love, or worship differently. The situation provides a unique chance to fundamentally rethink

existing business models in a way that could prove beneficial in the long-term—the risks, however, must be carefully and smartly managed along the way.



2. Workforce management will require constant adaptation, flexibility.

The overnight transitions necessitated by COVID-19 forced businesses to prioritize speed over planning.

Path dependency suggests there is a risk that quick, initial responses will remain the default business models regardless of any strategic weaknesses. Patterns of behavior become ingrained over time and, once a path is selected, it can be hard to shift direction later on. For business leaders, it is imperative to make course corrections early and often with long-term implications in mind so that short-term tactical decisions do not end up dictating or constraining strategic choices about how workforces are reorganized.

It is also important to recognize that, throughout the pandemic, the experiences of office workers and frontline/public-facing workers have been drastically different. Managing hybrid workforces requires not just new technologies but new practices, and a greater reliance on emotional intelligence. Those employees already suffering from racial and social marginalization will likely only become more so through remote work. New or young employees will also face a steeper path in terms of training and inculcation. Businesses will need to strive to preserve learning, innovation, diversity, inclusion, and creativity across their workforces, while also maintaining and growing corporate culture. In the new environment created by COVID-19, more flexibility and intentionality will be required.



3. International cooperation needed on digital trade rules, and immigration and labor laws.

The increased use of collaborative software, access to remote databases, and need for virtual meetings has made facilitating data flow across

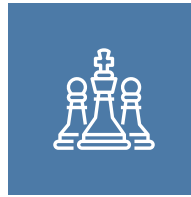
borders even more essential. Yet, digital protectionism is rising, justified on the grounds of national security, political stability, or right to privacy. The shifts in the future of work from mature, local labor markets to dispersed, global talent pools make supporting efforts to improve data flows and digital trade more pressing. Additionally, anything that

makes it easier to work remotely domestically will also make it easier to work remotely internationally. Business and governments must proactively work together to create a new legal framework for the future of work, and to push back against protectionist cries of social dumping and reactive calls for regulatory shelterism.

CHINA'S ROLE IN THE WORLD

China is where the changing future of the international system and technology meet. The geo-economic center of gravity is shifting east. As we look to the next decade and beyond, China must factor heavily into our thinking. While the Council's discussion of this topic was broadly framed around China's role in the world, its focus predictably narrowed to the central challenge of Washington and Beijing. The U.S.-China relationship is, without question, the world's most consequential bilateral relationship. Not since Nixon's opening in 1971 have the ties between Washington and Beijing experienced systemic shifts as fundamental as the ones we are currently witnessing. This new phase is defined by friction and distrust, along with a lack of strategic consensus on the definition of success.

The Council observed that there is emerging, bipartisan consensus in Congress, as well as beyond Washington, around the idea that China is growing more assertive. There were a range of views and perspectives raised in the discussion, including on China's long-term development, economic challenges, rationale for certain actions, and a desire for deeper engagement. Several participants also noted legitimate concerns regarding China's lack of reciprocity and other unfair trade practices, along with human rights in Xinjiang, military activity in the South China Sea, and international commitments in Hong Kong. In this heightened risk environment, the Council discussed the need for the U.S. and its allies, particularly in Europe, to find a way to work with China and develop a new framework for managing the relationship that recognizes fundamental differences. China, in turn, must rise to meet the responsibilities and expectations that come with achieving the status of a global leader, including with more open and reciprocal economic policies, greater political inclusion and a respect for human rights, and a firm commitment to the rule of law.



1. Lack of strategy, dialogue making a bad situation worse.

The United States and China lack a clear strategy—one that sets achievable objectives, realistically balances interests and values, and includes a framework for engagement.

As opposed to what some may suggest, it is not realistic to seek to change the nature of the Chinese regime or remake it in the American image. Here, it is important for the U.S. and its allies to recognize that it is not dealing with a rising China but a risen one. The best outcome for U.S.-China relations is likely managed competition—an accommodation that avoids military conflict while allowing for limited cooperation. Getting there will take enormous diplomatic investments and there will be a high premium on expert statecraft and mature rhetoric from both sides. A high-level strategic dialogue should be established to set basic ground rules and pursue cooperation on issues like climate, cyber norms, global health, and trans-border security threats. The two governments will need to bring flexibility and fair expectations to the table, along with a recognition of fallibility and a willingness to see each other's perspectives.



2. Join with allies to compete from a position of strength.

A key element of any U.S. strategy for managing the China relationship must include working cooperatively with allies. The U.S. needs to come to an understanding with Europe, Australia,

India, and others on common objectives and purpose. Europe, for its part, must be careful to avoid occupying the untenable middle ground. The U.S. and its allies will need to be prepared to confront China in places where its actions conflict with the reasonable interests and values of the wider international community; be ready to cooperate with China where possible; and be able to compete with China where legitimate. The latter will require the U.S. and Europe to demonstrate the strengths of their own systems. They can begin to do so by investing in their own technology, infrastructure, and educational systems; by strengthening their own democratic norms and institutions; and by resisting the pull of narrow domestic issues to engage with the intellectual and diplomatic challenge of re-establishing the liberal international order.



3. Decoupling neither feasible nor desirable; Re-engage on multilateral trade.

While there is a growing separation between the U.S. and China, the terms “decoupling” and “Cold War” are imprecise and overstated. No

single country has enough leverage over China or can endure the economic pain that would come from breaking all economic ties. The U.S. is at a disadvantage in key areas like 5G, microelectronics, and semiconductors. Despite its structural economic challenges, China’s labor force is also still the largest in the world; it is impractical to think that supply chains and manufacturing can be moved simply, affordably, or comprehensively out of China. The strength of China’s domestic economy and consumerism is also important for American and European businesses that need to be able to compete internationally.

Creating a more fair and enduring global trading regime is a wiser course than decoupling. The United States should end its confrontational approach with the European Union and join forces to confront China on issues of mutual concern, such as intellectual property theft, forced technology transfer, and other structural inequities. In addition, the U.S. should consider entry into a renegotiated CPTPP and lead a multilateral effort to revitalize the World Trade Organization as a platform for reaching and enforcing new, binding trade rules including in areas that remain ungoverned by existing agreements. One priority area could be trade in digital services. Given how the pandemic has accelerated the role of technology in reshaping the future of work, the U.S. should lead the multilateral push to write the rules for digital commerce. In this effort, the U.S. must be discriminating when it comes to technology and think through the criteria for isolating certain elements; not all Chinese technology is a threat.

RESPONSIBILITY OF BUSINESS LEADERS

Bold ambition and decisive action will be needed to find opportunity in these challenges, along with a holistic approach that includes international organizations, governments, civil society, and the private sector. Leaders from across the spectrum must come together to forge solutions and avoid bad outcomes. Business leaders, in particular, must lift their gaze from self-interested, parochial concerns and accept their responsibility to act and advocate as part of a bigger whole. The important

role of business in this regard was a consistent theme throughout the Council’s conversations and reflects an important evolution that must now turn into action.



1. Public-private cooperation on recovery efforts.

Concerted effort will be required to ensure the public-private collaboration that emerged around COVID-19 continues. There is a risk that, in the rush to rebuild shattered labor

markets and recover lost economic growth, governments will be guided by narrow, nationalist interests and reactive impulses to regulate, rather than work with business to think through the potential advantages and consequences of the new normal. Business leaders need to work with governments to ensure any efforts do not stymie needed adaptation and recovery efforts, such as expanded data sharing and business-to-business cooperation, and instead focus on skills training and minimizing the growth in inequality post-recovery. Through engagement at all levels, the private sector needs to be proactive in ensuring that the public sector response supports economically and socially beneficial outcomes. State and local governments may be best placed to collaborate with companies on necessary changes.



2. Defense and reform of the system.

The pandemic has catalyzed the conversation on the future of globalization, as economic stress generates calls for employment and trade protectionism. The downside

realities of globalization—social and economic inequality and over interdependency—are on full display while its essential benefits are increasingly overlooked or taken for granted. The accompanying rise of nationalism is making international cooperation, and doing business internationally, more difficult.

Business leaders, leveraging their influence and robust networks, can be powerful advocates for the international system but have generally been content to sit back and let others make the case. The current crisis demands business do its part in highlighting the system’s benefits while also recognizing its role in reform. No longer can business be on the sidelines or appear agnostic about the dynamics in our economy and society that create high levels of

inequality. Challenges to the international system will persist until global competition is seen to be fair and the benefits from globalization are more equitably distributed. Recovering from the impact of COVID-19 is an opportunity to rethink the role of business in accelerating a more inclusive economy and securing a social safety net that works for everyone.



3. Greater engagement with international organizations.

While governments rightly remain the primary players, business leaders across the world can play an important role in the development and advocacy of certain policies and international

standards, many of which are profoundly commercial in nature (e.g., future of work, data, privacy, technology, trade, digital currencies, sustainability, etc.). The B20, the voice of the private sector to the G20, could be a potential vehicle for greater influence, though it currently suffers from a lack of coordination, structure, and leadership. An alternative place to start would be to pursue constructive strategies through business counterparts to the G7 together with India and Australia.



4. Offer a rational voice on U.S.-China policy.

As tensions between the U.S. and China have grown, most businesses have sought to retain a relationship with

both established markets in the U.S. and Europe, and with the fast growing, large market in China. Business, however, will find it increasingly difficult to straddle the two spheres. Remaining passive is likely to put corporations, their brands, and their commercial interests at risk of being weaponized as tensions rise between the U.S. and China. Business should proactively work with governments across the world, but especially in Washington and Beijing, to prevent a fracturing of global markets and to revitalize global trading norms and institutions.

CONCLUSION

Crises can be opportunities to do things differently. The end of World War II led to the creation of the global architecture as we know it today, from the United Nations to the Bretton Woods institutions. Since then, other international shockwaves, from the AIDS crisis in the 1990s to the 9/11 attacks to the financial crisis of 2008, served as catalysts for new mechanisms of cooperation and response. The incoming Biden Administration now has the heavy responsibility of charting a course that inspires more hope than fear. Business leaders must be prepared to do their part.

ABOUT THE INTERNATIONAL COUNCIL

Meeting for the first time in 1967, the International Council was founded to address the rapid expansion of J.P. Morgan's business outside of the United States. At that time, the firm's chairman and president perceived a need for an advisory group whose stature and experience could help to better understand key global trends. Since its inception, the Council has provided valuable insights and been instrumental to the development of the firm's strategy and outlook. Former British Prime Minister Tony Blair serves as the Chairman, and former US Secretary of Defense Bob Gates serves as the Vice Chairman. Other members include the Chief Executive Officers and Chairman of international corporations including Siemens AG, The Kraft Heinz Company, Johnson & Johnson, Alibaba Group, Tata Sons Ltd, LVMH Moët Hennessy, and Saudi Aramco.

Over the years, the Council has provided the firm with the diverse perspectives needed to develop the most innovative solutions for our clients. Each year, we bring together these leaders in business and public service to discuss the major issues affecting the economic and geopolitical landscape. We believe that periodic consultation with such a group provides the firm and its clients with unparalleled knowledge and experience from their respective regions and local markets and is of great mutual benefit to both participants and the firm.

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