

Think

new things

Make

new connections

Conference Summary

**What does geopolitics
today mean for business
tomorrow?**

21-23 April 2023

DITCHILLY

EXECUTIVE SUMMARY

Context and why this was important

Geopolitical strains today mean our economic and security objectives are evermore starkly connected. The ongoing Ukraine war has disrupted global supply chains, impacting the provision of food, energy and labour (to name just a few sectors). Its consequences have affected populations at both the national and local levels, as the UK cost-of-living crisis has demonstrated. Ukraine's future is also uncertain, with the sources of finance for reconstruction of damaged infrastructure and Ukraine's future geopolitical position in the aftermath of the war still to be determined.

The geopolitical competition and growing tension between the US and China is a backdrop for European decision-making. As policies like the IRA and CHIPS Act have made clear, the US is aiming to set a strong tone of derisking supply chains and critical capabilities away from China. We have seen some countries follow suit, as the October export controls involving Japan and the Netherlands revealed. However, many others are less willing to commit themselves to that position, in part given the economic realities of China's current involvement in several large-scale industries.

Underlying these geopolitical challenges is a threat of greater magnitude: climate change. Most, if not all, countries recognise the danger that climate change poses, and we are already beginning to see trillions of dollars directed towards decarbonisation efforts. However, the major issue we now face is that Moore's Law does not apply to digging holes: the process to acquire permits for renewable energy projects is too lengthy.

As geopolitics and economics increasingly intersect, we are seeing industrial policy emerge as a key lever to addressing these issues. This is by no means a new phenomenon: there is a rich precedence in the West, one that may hold valuable lessons moving forwards. However, what makes this current iteration of industrial policy notable is the significant degree to which economics now matters on the global stage, and how it then impacts security more broadly.

People

This conference brought together key stakeholders and leaders across industry, government and think tanks, with representatives from the technology, finance, consulting and automotive sectors gathering around the table. Geographies represented included the UK, the US, the EU, Australia and Canada.

SUMMARY OF THE DISCUSSION

The conference began with a sombre review of the current state of affairs, touching on issues like fluctuating supply chains, the threat of China regarding Taiwan and Russia, and the risks of technological advancements. Businesses currently find themselves navigating through this storm of challenges. Two strong arguments were made: firstly, that a degree of decoupling of the West from China is inevitable though unfortunate; and secondly, that businesses need policy clarity on upcoming and planned geopolitical decisions in order to survive and make hard but necessary choices.

This set of challenges and circumstances gives rise to a host of questions: how should both businesses and countries navigate the increasing tensions and concerns around China? What is a realistic extent of decoupling and derisking that will not cripple current economies? How should the interrelation between government, businesses and the general public develop to achieve the optimal outcomes for all parties involved? And, as we are seeing technology integrated more into different work environments, what is the evolving value of a human being?

These questions were addressed over the course of two days, giving rise to a slew of ideas, recommendations and precautionary caveats, most important of which was the caveat that China is not at all the same as Russia. The key difference is that China holds a much greater share of the global economy than Russia ever did. The current integration of China in several core supply chains calls for a more nuanced and balanced discussion regarding engagement with the country, one that is currently pervasive in several regions across the world, though largely absent in the US.

Shifting from a geopolitical to a financial perspective, industry leaders largely do acknowledge the risks involved and concerns governments may have. However, for any business to be successful, they will inevitably prioritise their “north star” of profitability. This may lead them to often push back against recommendations or policies they regard as unrealistic or unfeasible from an economic perspective. The reason for that friction partially lies in the fact that there is not enough active dialogue between businesses and governments in the creation of policies, nor is there perhaps enough honesty on both sides of the reality of the situation we find ourselves in.

Looking ahead, there are several key points to bear in mind. The first is the need for early small steps to set in train more rapid and significant later change. We expect companies both to be responsible to ESG standards and to make sustainable decisions as a result. However, it is equally important to be responsible to the immediate needs and wants of citizens; given the economic hardships that many have experienced recently, concerns on climate often can take a secondary position to shorter-term economic survival. Ideally, small-scale changes will incentivise further and grander actions, which will in turn result in a flywheel effect for exponential change and broader involvement.

Alliances at the international scale are also important to maintain in this arena. Future approaches to developing economic security must be done in a robust way, one that accounts for the intricacies of supply chains and promotes a cohesion of values and economies among allies. The idea of a “Climate club” was raised during these discussions, though the exact details and functioning of such a group would need to be fleshed out to see if the idea would be viable.

Finally, amidst the exponential growth in technologies like AI, certain capabilities previously thought to be the preserve of humans are being replicated by machines. What started with the replacement of blue-collar jobs is now creeping into white-collar spheres as well. Rather than focus on the job losses and negative possibilities, we should look to these changes as an opportunity for human growth. Productivity does not need to be the hallmark evaluator of a human anymore; the question then arises: what is the value of a human, and how can we keep that integral to our work as we integrate machines more as co-pilots than our replacements?

Recommendations and ideas (not consensus but arising in the discussion)

The need for proper structure between governments and businesses. Governments are able to make sensible policies but without the right policy structure the distribution of costs can cause issues later down the line. Additionally, there is a question of whether governments are still best placed to create the architecture for others to act, or whether that role belongs either to global governing structures like the UN or to the private sector.

Resilience as an insurance policy. In striving to achieve resilience and efficiency in supply chains, it is worth remembering that resilience is essentially an insurance policy. In this framework, the question then becomes: how much resilience are you willing to invest in?

Cheap renewable energy sources are here but the challenge remains huge. Contrary to past narratives about renewable energy sources, they are now the cheapest form of electricity generation anywhere in the world. By that logic, the green transition should not be held back any longer, when

in fact renewables are putting downward pressure on prices. As stated above, however, the challenges we are seeing to this transition are not technological, but bureaucratic challenges such as acquiring permits for these projects and simply the scale of the global energy system that has evolved over decades. Streamlining processes will help, but we need to acknowledge that the green transition is a huge enterprise and likely to take longer than anticipated. This will mean more climate impact, eventually driving political urgency to the level where it needs to be for transition to be pushed through. (Although many would argue that we're already well past that point.)

Stronger united, weaker fragmented. If we combine the GDPs of democratic versus authoritarian countries, the former is much higher than the latter. Democratic countries have a strong position in the sense that there are far more resources at their disposal. The issues arise from coordination; we let small differences make things more difficult.

A symbiosis between business and government. For fear that governments are too dominated by national security concerns and may make overly cautious decisions, businesses must be assertive in assuming the lead role in driving forwards effective industrial policy. Governments should still be actively involved in the process but must identify the right times to regulate or advise.

Recoupling as a path forwards. There is the question about whether our politics will be able to cope with the changes to come. In order to prepare, we must be actively engaging and collaborating across governments, both transatlantically and across the world. We must cut through the noise and formulate an agenda that could help to fill the geopolitical gap that will result from derisking, thereby increasing resilience whilst remaining true to open markets and culture.

Honesty across the board. We must be honest about the difficult challenges and choices ahead, whether we consider the inflationary impact that altering supply chains will have, or the questions around equity during this transition period. Such honesty will allow us to devise more effective solutions, and perhaps even enable us to impact other countries by extension, bringing them along with the political West towards a better future.

Certainty is key. Businesses want some certainty on the direction of travel, although that is hard given the complexity and nuances of the geopolitical challenges we face – it is not simply a matter of us having governments tell us what to do. There is a need for speed to address the geopolitical and economic challenges – and chunking the solution down and making things more manageable is always good for influencing change.

A number of the themes and questions arising from this conference will inform Ditchley's programme for 2023-25, these include:

- The future of Taiwan
- Decoupling and recoupling supply chains
- Fostering symbiosis between business and government
- Renewable resources
- India
- The evolution of value through technological progress
- Multilateral efforts to tackle climate change

This Note is a summary of conference discussions. No participant is in any way committed to its content or expression.

PARTICIPANTS

AUSTRALIA

The Hon Julie Bishop. Chancellor, The Australian National University.

Mr Michael Thawley AO. Vice-Chairman of the board, Capital International Fund.

Ms Lucy Turnbull AO. Director of Turnbull and Partners Pty Ltd.

The Hon. Malcolm Turnbull AC. 29th Prime Minister of Australia.

CANADA

The Hon Bill Morneau. Served as Canada's 39th Minister of Finance; Governor, International Monetary Fund and World Bank.

Dr William White. Senior Fellow, C.D. Howe Institute.

GERMANY

Dr Liana Fix. Fellow for Europe, Council on Foreign Relations.

David Folkerts-Landau PhD. Group Chief Economist and global Head of Research, Deutsche Bank London.

Dr Norbert Röttgen MdB. Member (CDU), German Bundestag.

Mr Bobby Vedral. Partner and Portfolio Manager, Toscafund.

Mr Martin Wiesmann. Managing Partner, Berlin Global Advisors.

IRELAND

Mr Mike Eakins. Chief Investment Officer and Group Executive Committee Member, Phoenix Group plc.

UNITED KINGDOM

Mrs Melissa Bethell. Managing Partner, Atairos Europe.

Mr Michael Birshan. Senior Partner, McKinsey & Company.

Mr Jonathan Black. Heywood Fellow, Blavatnik School of Government.

Mr John Cryan. Chair, Man Group plc and X Cyber Group Ltd.

Ms Jan Hall OBE. Founding Partner, No 4.

Dr Michelle Haslem. Director General, Foreign, Commonwealth and Development Office.

The Rt Hon the Lord Hill of Oareford CBE. Life Peer, House of Lords.

Ms Sally Jones. UK Partner for Trade Policy & Strategy, EY.

Mr Sam Lowe. Partner, Trade and Market Access, Flint Global.

The Rt Hon. The Lord Mandelson. Co-Founder and Chairman, Global Counsel.

Mrs Xenia Wickett. Director, Wickett Advisory.

The Hon. Robert Wills. Founder & Managing Partner, Collective Capital London.

UNITED STATES

Mr Cameron Abadi. Deputy Editor, Foreign Policy.

The Hon John B. Bellinger III. Partner, Arnold & Porter LLP; Adjunct Senior Fellow in International and National Security Law, Council on Foreign Relations.

Professor Jason Bordoff. Founding Director, Center on Global Energy Policy.

Mr Teddy Bunzel. Managing Director, Head of Geopolitical Advisory, Lazard.

Ms Elaine Dezenski. Senior Director and Head of the Centre on Economic and Financial Power, Foundation for Defense of Democracies.

Mr Craig B. Glidden. Executive Vice President for Global Public Policy, Cyber Security, and Legal (General Counsel and Corporate Secretary), General Motors.

Mr Cary A. Koplin. Managing Director, Investment Management Division, Neuberger Berman LLC.

Mr Michael Kratsios. Managing Director, Scale AI.

Mr Daniel Lubin. Chairman, Upsher Management Company.

Ms Brittany Masalosalo. Chief Public Policy Officer, HP Inc.

Mr Brent McIntosh. General Counsel and Corporate Secretary, Citi.

Ms Jami Miscik. Board of Directors, HP Inc.

Dr Shannon O'Neil. Vice President of Studies and Nelson and David Rockefeller senior fellow for Latin American Studies, Council on Foreign Relations.

Mr Jon Pruzan. Former COO and Executive Vice President, Morgan Stanley.

Mr Christopher M. Schroeder. Co-Founder, Next Billion Ventures.

Dr Matthew Spence. William J. Perry Fellow, Centre for International Security and Cooperation, Stanford University.