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WEBINAR AND ONLINE GROUP DISCUSSION

Geopolitical and Global Trade Outlook

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Vicky Pryce,

Chief Economic Adviser and Board Member,
**The Centre for Economics and Business
Research (CEBR)**

Geopolitical and Global Trade Outlook

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On 26th January 2022, PARC and CRF members gathered for ‘**Geopolitical and Global Trade Outlook**’, an update on the geopolitical and trade developments that will shape our business and people strategies in 2022. Vicky Pryce, Chief Economic Adviser, Centre for Economics and Business Research, led the session.

Vicky noted that there are many geopolitical tensions right now, which make the outlook uncertain. With that caveat, she discussed:

- global trends in economic growth and their impact
- the factors causing inflation
- and ongoing issues related to the pandemic.

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Key Takeaways

- 1** The post-pandemic **economic bounce back** in advanced economies – sustained by discretionary fiscal expansion – has been strong, but data from multiple sources suggests that it is now slowing down as governments and central banks begin to retrench. We might be returning to pre-pandemic slow GDP growth, but with a new twist – high inflation.
- 2** On top of slow growth, the world economy faces a number of structural challenges including severe **supply constraints** (which are boosting inflation), cyber warfare, and an increasing concentration of wealth. Interest rate rises are likely, though they will probably be small.
- 3** **Vaccination levels** will be a major determinant of economic bounce backs, with less developed countries at a disadvantage. At the same time, the longer-term scarring impact of the pandemic may not be immediately obvious from economic figures. Damage to social cohesion and mental health could lead to problems in the future.
- 4** We can expect a continued squeeze on the UK **economy and living standards**. Reasons for this include:
 - incomes are lagging behind economic growth (real household disposable incomes are not forecast to reach pre-pandemic level until 2023),
 - transport and infrastructure spending have fallen (or are inadequate to repair pandemic damage to transport finances),
 - skills have degraded during the pandemic leading to a loss of human capital,
 - the impact of pre-pandemic cuts on some public services is ongoing, and
 - Brexit is still causing trade challenges which are likely to have a dampening effect on imports and exports for some time.
- 5** The **UK labour market** appears to be becoming increasingly tight, and staff shortages have been exacerbated by Brexit and by older people in particular withdrawing from the labour market. If this speeds up the use of technology / automation to fill jobs, it may have a positive impact on productivity.

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- 6 Businesses are worried about many things and are not very optimistic, while consumer confidence is dropping in the UK. Key worries include **climate change**, the transition to Net Zero and its cost and social impacts, and in the US and UK in particular, cybersecurity.
- 7 High levels of **debt** accumulated during the pandemic will create problems, particularly for emerging economies. There could be a return to austerity measures, but there has perhaps been a sea change in central bank thinking around that strategy.
- 8 **Trade** will continue to fuel growth – reshoring to restore better stability in supply chains may happen but will be limited.
- 9 **Globalisation** is here to stay but it is now at much higher risk from political volatility and military aggression. Fragile growth and increasing inequalities between countries will fuel these tensions.
- 10 The challenge of **climate change** and **Carbon Net Zero** is massive and has not been thought through – most people are underestimating the effort, resources and implications. Government and business need to work together to find solutions.

Q&A

USE KEYWORDS FOR NAVIGATING RELEVANT TOPICS IN THE Q&A

Q Could you share a few of the highest-impact things in the business economy we will, or may be, confronted with?

A Over the short term, key issues are supply chains, inflation, and ease of trade. There are some indications that supply chain pressures are easing. But if anything stops their relaxing, such as war or some kind of unexpected reaction from China, that will be a problem. Inflation is linked to supply chain issues to some extent – it will be good news if inflation is temporary. Finally, interacting with the wider economic community across the world is essential. Anything that makes trade harder or more expensive will be an issue. We will have to watch and see what happens in relation to globalisation and, for the UK, the cost of trade because of Brexit. Over the long term, climate change is a key concern. More generally, I worry about the competitiveness of the UK as the EU seems to be getting its act together and really behaving as a single market in ways we haven't seen before.

BUSINESS ECONOMY

Q In the UK, Rachel Reeves says the government is creating a high-tax, low-growth economy with their policies including business rates, etc. Do you agree?

A Businesses have been worried for some time about business rates. What we know is that we have already seen Rishi Sunak do something on business rates – freezing plus a different path for calculating business rates in the future, which should be better for firms. But there are many details that need to be sorted out in that area for it to be more lenient toward companies. The government would argue they've given special support to smaller business, but no one can say the current scheme is fit-for-purpose. So it does need to be looked at. But business rates then get recycled by the Treasury in a certain way (impacting local councils); then this raises the question of how do you ensure they have the funds to do what they need to do?

TAX ECONOMY



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CLIMATE CHANGE

Q Could you say a bit more about the impact of the climate change transition on the global economy? Will it be a doubled-edged sword?

A There is a tension between doing it now and the associated costs, or the costs if we wait until we are richer or have new technology to help. The reality is that we are in this transition period already, and perhaps the costs – both to businesses and households – have been underestimated. We are already seeing this in the price of gas as we're moving to what's supposed to be cleaner energy. So a lot of investment is needed to make this transition; the circular economy requires support from governments. You need an awful lot more than just regulations.

UNEMPLOYMENT
LABOUR SHORTAGES

Q On the topic of unemployment and labour shortages – have you seen evidence of 'The Great Resignation' in the UK and/or more people changing jobs than before?

A The ONS calculates this, and the labour force in the UK has indeed shrunk, for reasons including inactivity and people leaving the country because of Brexit. The Great Resignation is an interesting phenomenon; it's not just people leaving jobs, but leaving certain sectors (like hospitality or transport) or leaving the labour market altogether. This has created a lot of tightness in the labour market. It could ease at some point, with students entering the labour market or particularly if wages rise. It's really a very interesting situation ahead, because employees might finally get a little bit more power. For example, in terms of how they go back to the office or where they work from.

INFLATION

Q What are your predictions on wage inflation vs. inflation?

A The problem is that firms can't really pay a lot more. They do in some areas – the biggest above inflation increases we've seen are in the financial and business services sectors. But manufacturing can't pay much more. The public sector isn't going to increase wages above inflation. And this is going to be a problem. Raising the minimum wage will help, but there are big differences in sectors and already, while on average wages are going up by 4.5%, last month was down from the previous month.

RUSSIA / UKRAINE

Q What non-military options and sanctions are on the table for the Russia / Ukraine situation?

A War isn't going to help, and the sanctions have to be such that they still allow economic activity to take place. There is no easy way out of this situation. Many EU countries would be against severe sanctions that inhibit economic growth.

AGEING POPULATION

Q Is the ageing population in the UK (masked in recent years by the inward migration of pre-Brexit years) impacting at all?

A Yes, but migration continues. We still have migration from outside the EU and some rules have changed to facilitate that – such as allowing people to stay longer and reducing the salary threshold for entry. Interestingly, looking across Europe, the UK is probably the only country that will have an increase in its working population. So its impact won't be as acute here as in the rest of Europe, where working populations are expected to continue decreasing.

NATIONAL INSURANCE

Q Should the UK government proceed with the National Insurance increase in April or should they drop the idea? What repercussions will there be under either action (if any)?

A There is a lot of pressure to drop it. So far we are hearing that the government has no intention of doing so. The increase was going to take place to raise £12bn a year to fund the increasing demands on the NHS and social care. You could say that because of the recovery we've seen in the economy, the government could afford to postpone the increase. But that would create a problem for allocating the money to the NHS and social care. I suspect the government will go ahead. But what the government needs right now is growth in the economy, which is probably why COVID restrictions are lifting so much, and ahead of other countries.

LEVEL UP

Q If we were to have a new Prime Minister, what do you think they might do to 'level up'?

A The real problem with levelling up is that the way to get productivity up is to have good infrastructure and skills, particularly high-level skills. Disparities are immense across the UK in both respects. The government can provide financial support to individual companies, but that doesn't really make a great difference. Furthermore, inequalities have only increased during the pandemic, and so the cost of levelling up has gone up. We can talk about it, but what are the chances of there being enough money to do this heavy lifting?

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VICKY PRYCE is Chief Economic Adviser and board member at the Centre for Economics and Business Research. She was previously Senior Managing Director at FTI Consulting, Director General for Economics at the Department for Business, Innovation and Skills (BIS) and Joint Head of the UK Government Economic Service. She is a Fellow and Council member of the UK Academy for Social Sciences, a Fellow of the Society of Professional Economists and a Companion of the British Academy of Management. She is a member of the Advisory Board of the central banking think-tank OMFIF and of the Economic Advisory Group of the British Chambers of Commerce. Her latest book, *Women vs Capitalism*, was published by Hurst in November 2019. She is co-founder of GoodCorporation, a company set up to advise on corporate social responsibility.

Email

VIDEO SUMMARY

Further Reading

Pryce, Vicky. 2021. **HRD Briefing 2022: Geopolitical and Global Trade Outlook**. Corporate Research Forum. <https://www.crforum.co.uk/research-and-resources/hrd-briefing-2022-geopolitical-and-global-trade-outlook>

Toft, Steve. 2021. **Issues That May Define 2022 and Beyond**. PARC. <https://www.parcentre.com/research-and-resources/issues-that-may-define-2022-and-beyond>

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