



# THE FINANCIAL TIMES & 12 HAY HILL DAVOS DEBRIEF 2019



## HIGHLIGHTS

**Conceived at 12 Hay Hill, the Davos Debrief has become a highlight of the club's annual calendar.**

As the home of 'club-working', we created it in partnership with the Financial Times as part of a programme of carefully curated events that have established us as the leading forum for discussion of all aspects of business and enterprise. It is designed for members and guests who are not attending Davos, the flagship gathering of the World Economic Forum, or those who are and want to engage in the topics covered in greater depth.

The 12 Hay Hill Davos Debrief featured some of the thought leaders and businesspeople speaking at the summit alongside celebrated Financial Times journalists and commentators. They shared unrivalled analysis of what was discussed, who made waves, what was agreed and the implications for politics, economics, finance and business in 2019.

On the day, proceedings were streamed live within the Club and, responding to the enthusiastic feedback from attendees, the proceedings are now made available online for all our members and guests to enjoy.

## SESSION 1: ECONOMICS AND MARKETS

### Sustaining global growth amid political and technological disruption – Are our financial, monetary and institutional frameworks fit for purpose?

The world is entering an 'indefinitely extended period of tension' between its two superpowers, China and the US, which poses serious downside risks to the global economy, the opening session of this year's FT-12 Hay Hill Davos Debrief was told.

**Martin Wolf, the FT's Chief Economics Commentator**, said the Davos summit had been dominated by discussion of trade conflict between Beijing and Washington, with concerns expressed by one unnamed senior figure at the event that the US had 'an administration entirely devoid of grown-ups'. He told members and guests attending the session, which focused on economics and markets, that people were 'moderately optimistic' that there would be some sort of agreement on trade by March. But he warned: 'Nobody believes that will be the end of it or even the beginning of the end of it. There is a very widely shared sense among people I spoke to, which included quite a few very well informed Chinese friends of mine, that we are at the beginning of an indefinitely extended period of tension between the two superpowers which is going to be very difficult to manage.'

Mr Wolf said these tensions would cut across 'pretty well everything' including security issues, regional issues, the global economy and trade wars which would leave other countries 'painfully in the middle'.

He cited remarks by Prime Minister Abe of Japan who said of the trade dispute between the US and China: 'We sort of sympathise with the US objectives [but] we absolutely loathe the way they are going about it because we really depend on the WTO.'

'Another country whose minister I talked to at length, caught in the middle between the US and China right now, is Canada. And the UK - the famous sovereign UK - is going to find itself squeezed right in the middle of this,' he added.

**Chris Giles, the FT's Economics Editor**, said that US Secretary of State Mike Pompeo, addressing the summit via video-link because of the US government shutdown, made him 'sit up' by citing China's economic model as one of the biggest problems for the US alongside Iranian and North Korean nuclear ambitions.

'He put those three things in a list, which really doesn't suggest that the China aspect of it is going down very well. He said... he hoped that China adapts its policies consistent with those principles of US democracy. There was very, very little give or take there,' he added.

'And the Chinese top official in Davos was Wang Qishan, the Vice President, and he said, and I think he has a slightly more passive-aggressive relationship with the US, so he didn't actually name the US but he said shifting blame from one's own problems on to others will not resolve the problems and it was perfectly clear who he was talking about.'





## SESSION 1: ECONOMICS AND MARKETS



**Gavyn Davies, Chairman of Fulcrum Asset Management**, told the session that he ascribed most of the slowdown in Chinese growth to domestic deleveraging policy and monetary tightening, rather than trade disputes.

'They have not yet thrown all of their weapons at the slowdown in demand,' he added. 'They have a self-denying ordinance on that. I think they will throw more of their weapons and they will turn it around, but that's a big open question,' he added.

The session also discussed the risks of Brexit. Mr Davies argued that a 'crash out Brexit' was not the same thing as a 'no deal' Brexit, adding: 'We can have a no deal Brexit that is planned. Some people call it managed. It's not going to be that easy, it has to have time delays, but countries do exist outside the EU, folks, and we can become one of those countries, with some cost to ourselves.'

'I'm not saying it's a good idea but we can become one of those countries in a relatively orderly manner, if we plan it sensibly.'

However, Mr Wolf said the UK had done 'extraordinarily little planning for this on our side', adding: 'I used to think we had a government which had a machine that could do things like that. Apparently not.' A no deal Brexit, he said, would be 'very, very difficult' and require a 'long extension'.

**Hélène Rey, Professor of Economics at the London Business School**, said Brexit was 'nowhere near the top of any priority' in continental Europe. 'There is frankly a kind of mixture of disbelief, sadness, a kind of 'What are they doing?' feeling. This reputation of great pragmatism of the UK, where is it?' she asked.

'What's happening? So there is really a little bit of a misunderstanding of how it is possible that there is this kind of bubble type of debate where there seems to be systematically going in circles a kind of misjudgement about, first, the EU resolve and unity on this issue and second, on the bargaining power of the UK in respect to the EU. Bargaining power is pretty much proportional to size and there seems to have been a mis-estimate of the bargaining power of the UK throughout.'

**Elina Ribakova, Visiting Fellow at Bruegel**, cast doubt on the idea that the EU would agree to grant the UK a significant extension of Article 50 and suggested it would prefer to see the UK crash out with no deal. 'I don't see why it would be in the interests of the European Union to significantly reduce their bargaining power by granting a long extension,' she said. 'I think an extension for specific negotiations for the next maybe three months or six months that is really focussed, maybe, but I think they only increase their bargaining power by actually letting this worst case scenario happen in the short-term.'

Mr Wolf said his current major concern for the global economy is that 'there really isn't much conventional firepower to use if the economy goes down'. 'I think that is the most important conclusion I reached [at Davos]... there are things one could do but they might be very difficult to do technically and they certainly will be very difficult to do politically in that context, and that fits into the next thing,' he said.

'There is a particular concern that if something had to be done cooperatively among the major countries, which obviously would have to include China now, it will be really, really hard to do under current leadership, particularly obviously American leadership with the current administration. These are very important points, can we manage something going wrong?'



## SESSION 2: GEOPOLITICS

### Back to the 1930s? Trump, China, Brexit, and the dangers of de-globalisation

A Labour government led by Jeremy Corbyn and propped up by an electoral pact with the Scottish National Party is significantly more likely than many senior figures in business and politics believe, this year's FT-12 Hay Hill Davos Debrief heard.

The second session of this year's event, which focused on geopolitics, was dominated by discussion of the UK's proposed exit from the EU, due to take place in a matter of weeks, and its likely political and economic fallout.

**Gideon Rachman, the FT's Chief Foreign Affairs Commentator**, said there were 'two big geopolitical events' hanging over Davos: Brexit and the escalating trade tensions between the US and China.

'On the geopolitical level, it was a slight sense of a waiting game, because there were two big events hanging over everybody, which nobody could be quite sure how they were going to turn out, that are meant to be resolved, essentially, in March, and that is Brexit – 29th March, and the US-Chinese trade war, where Trump has said the US is committed.

'If there is no deal they are going to ramp up tariffs from 10% to 25% on, I think, \$100 billion-worth of Chinese goods, and that would be a massive shock to the world economy. Therefore, there was a lot of discussion in the corridors about both the trade war and about Brexit,' he said.

Most people attending Davos still believed that 'good sense' would prevail in both areas, because they tend to be 'super-rationalists'. 'So they assume there will be a trade deal, surely. Of course, they will sort out Brexit. No-deal Brexit seems so crazy, why would you do it?' he said.

But **Miranda Green, a former political adviser and the FT's Deputy Opinion Editor**, told the audience that the UK was now 'back in the doom loop' on Brexit 'after a few weeks of thinking there were some sort of routes of escape open to us'.

She said a no deal Brexit was 'perfectly likely' given that Theresa May appeared determined to 'prioritise keeping her party together and compromising with her own Right flank rather than finding a compromise across the Commons'.

The Prime Minister was 'potentially still left open to panic measures where she could press the button on either a general election or some sort of second referendum, whether it's on her deal, or a just a replay'.

Ms Green said that a 'messy' outcome to Brexit would help the Labour Party 'hugely' and enable it to complain about the damaging impact of a 'Tory Brexit for the rest of time'.

'I think you have to recognise that in a general election Labour would have a lot of things going for it in terms of how people feel about the economy and whether they have a stake in it, and I think some sort of Labour/SNP alliance is not that remote a possibility,' she added.

'It is very difficult for Labour to win power, given that Scotland is so solidly for the SNP now, because it has always been those Scottish seats that have given Labour their majority in the House of Commons. I think a Labour-SNP coalition is rather under-priced if there were a general election, and then of course Corbyn will give Nicola Sturgeon her second independence referendum and where will we be?'

The 'great mistake' Britain had made was choosing to leave the EU bloc just at the point at which it was 'where we always wanted to be, leading the outer core', outside the single currency and Schengen immigration area.

**Denis Staunton, London Editor of the Irish Times**, said that while Jeremy Corbyn was 'not the greatest politician' the 'fundamentals are very much in his favour'.



## SESSION 2: GEOPOLITICS

'I think that the experience of a lot of people who live in this country is that they don't get paid enough to be able to afford to live their lives in any kind of meaningful way. They are priced out of almost everything,' he said.

'They don't have any kind of security, so I think... if you want to keep Corbyn out of power I think you probably have to give people better jobs, pay them better and maybe even pay more tax to make sure that life is more liveable for more people.'

**John Chipman, Chairman of the International Institute of Strategic Studies**, declared that a Corbyn government would be a 'descent into strategic hell'.

'He would abandon the nuclear deterrent, he couldn't be a full member of NATO. He would be very friendly, paradoxically, with authoritarian regimes from Putin to Maduro, if he was still around by the time Corbyn came to office,' Mr Chipman told the session. 'Our European allies would be perplexed. The North Americans would scratch their heads and really wonder. His policies towards the Middle East and Asia would not take into account the geopolitics of the regions that are so difficult to manage.'

On the issue of China, he predicted that the US would soon be lobbying its allies to take steps to stop its global technological rise, pointing to controversy over the Chinese mobile phone giant Huawei's reach in the West.

'The United States, Canada, New Zealand and Australia, the other members of the so-called Five Eyes world, have all either stopped or pressed the pause button on Huawei,' he said.

'For the moment, the UK is in that place of managing the risk, but I foresee that the United States over the next several weeks will put increasing pressure on its allies, partners and friends around the world to stop China 5G domination of the Internet, which would be a very significant thing,' he said.



Mr Chipman argued that when it came to Brexit, the UK's defence capability would have a significant impact on future UK-EU relations.

'The fact is that Europe has no strategic autonomy,' he said. 'There is absolutely no way in which even a perfectly integrated Franco-German defence core would be able to have the expeditionary capabilities or the defence ability that Europe would require to defend itself, or even promote security beyond its shores.'

'90% of the intelligence capacity is UK, and 53% of the heavy lift... if Europe wants to defend itself it can't do so without the UK.'

Mr Rachman told the session that environmentalist and broadcaster Sir David Attenborough had been the unlikely star of Davos – partly because so many world leaders, including Donald Trump, Theresa May and Emmanuel Macron, were absent, but also because of genuine alarm about the impact of global warming and other environmental issues.

'I did get the impression that there was – partly because Attenborough is such an effective advocate, a real concern for the first time about climate change, about species destruction, about pollution in the oceans, and so on. I don't know if anything will really change, but it was interesting. It had moved up a gear, as opposed to just tick that box that there was a sense that people really were concerned about it,' he said.





## SESSION 3: THE BUSINESS PERSPECTIVE

### What sectors are set for a shake-up in the year ahead?

Debate over whether shareholder value should be the fundamental goal of capitalism will force significant changes to the way companies are run and do deals, the third session of this year's FT-12 Hay Hill Davos Debrief was told.

**Arash Massoudi, the FT's Corporate Finance and Deals Editor**, said the mood at Davos had been 'gloomy' and it appeared that the 'global elite are out of ideas'.

Typically, Davos was dominated by discussion of one country and one technology that is 'hot' and everyone is excited about, but that had not been the case this year, he told the session, which concentrated on trends in business.

'A decade ago it was India and outsourcing; last year it was Macron and Blockchain, but this year it was flat. There is no country that anyone is excited about, and no technology that really somehow people thought would empower and make the world a better place, and would somehow solve some of these big crises before us,' he added.

'Instead, the leaders of the US, the UK and France were absent. The government of the US was shut down; the UK is dealing with Brexit, as we all know too well, and in France, protesters are tearing Paris apart and Macron has been forced to stay at home and cannot be seen with the global elite in Switzerland.'

The backdrop to the summit was US/China trade tensions, which seemed to dominate almost every discussion, Mr Massoudi told the audience. 'It was by far and away the biggest thing on everyone's minds, and the Chinese economy and whether it was actually slowing down was another major point of contention,' he added.

However, one other issue had preoccupied the business and world leaders in attendance: whether maximising shareholder value was still the right 'principal concept for why a business should be run'.

**Roland Turnill, Head of Mergers and Acquisitions at law firm Slaughter and May**, agreed there was a 'big societal push towards the inclusion of wider stakeholders such as employees, environmental concerns, pensions and whatever it might be on the particular deal'.

'There is also some regulatory change at the margin which pushes people in that direction. In the UK, the annual reporting requirements for large companies now will require directors to report on how they have addressed the interests of stakeholders, which is actually a subsidiary duty in the UK, rather than the primary one,' he said.

'Of course, if you are a board and you have to report on something, that will cause you to think about it, and I think this will have quite a material impact on how boards behave, and in a way that so far people have really under-estimated.'

Mr Turnill told the session that politicians were increasingly 'picking up the societal vibe' and raising wider questions, particularly around hostile deals.

'GKN and Melrose was a really good example last year, where the politicians got the bit between their teeth and made it quite difficult for that deal to proceed. All of that will have an impact on M&A activity, probably in a couple of ways,' he said.

'At the margin, there will be some deals that CEOs decide they just can't do, because it is the wrong place at the wrong time, and they will have to make too many redundancies in a hostile political environment, or they will have to withdraw from a particular region or a particular country at the wrong time. They will just decide that it is not worth it, for their reputation and for the reputation of their company, or that doing so will destroy more value than the transaction will create.'

## SESSION 3: THE BUSINESS PERSPECTIVE

'Probably more frequently, and less dramatically, just the way that M&A is done will change. People will think more carefully before they embark on transactions about how they will deal with employees, how they will think about pensioners? What should they do about the environment? They will also think about addressing those issues upfront: should we be going to talk to the relevant governments before we announce the transaction, about how they feel about things? Should we talk to unions and pension trustees and offer commitments? We are already seeing people thinking about that much more, and we are telling people that it is something that they ought to think about.'

**Michał Krupiński, CEO of Bank Pekao**, said the biggest problem facing business leaders this year was 'geopolitics and uncertainty'.

'You could clearly see that this is taking its toll and that there is a general sentiment in that people do not realise what is going on,' he said.

Brexit was causing concern in central and Eastern Europe, he explained, adding: 'We will miss the UK vote [in the EU] in terms of pushing through internal market reforms. We will also lose a little bit of pragmatism from the UK.'

**Jennifer Dunstan, Head of Fund Investor Relations at 3i**, told the session it was 'very easy, sitting here in the UK, to underestimate the impact for the outside world, looking at what is going on' in terms of Brexit.

'My European colleagues keep saying, 'What on earth?' ... we look shambolic at the moment and so I am not surprised that the [UK] delegation in Davos was struggling,' she said.

'How can you be out there talking positively about what is going to happen in the future and what you are going to do, when actually nobody knows what the reality will be?'

She added that there was 'no doubt' that deal activity in the UK had been dented quite considerably, adding: 'If you look at the statistics, since the referendum for Brexit in 2016, M&A activity in the UK has slowed, whilst things have continued to be pretty active in the European markets.'



She also warned that investors could not afford to ignore how much and how quickly businesses were being disrupted. 'What we are all now having to think about is how the disrupters will be disrupted, and trying to keep up with that pace of change. To a large extent, particularly if you sit at the older end of the spectrum, it is very easy to under-estimate how fast behaviours are changing. If you are interested in investing in the consumer space, that is actually changing so quickly that you are in danger of investing in something that will be obsolete in a very short period of time,' she said.

**David Isenegger, Group Chief of Staff and Head of Mergers and Acquisitions at Centrica**, said that the issue of technology and disruption was creating uncertainty and risk in the energy sector.

'One of the questions is about, technologically, how fast will renewables and batteries replace conventional generation and networks? That creates a good deal of uncertainty about, first, where to invest. For a company like mine, with all the bright ideas around electric vehicle charging and batteries and distributed energy, where would we spend our investment pound, or M&A pound?' he said.



To view videos of the sessions

THANK YOU