



Nobel Perspectives: On a post COVID-19 world

Professor Michael Spence

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Professor Michael Spence won the Nobel Prize in 2001, for his work in the field of information economics. He is the Philip H. Knight Professor Emeritus of Management in the Graduate School of Business at Stanford University, a Senior Fellow of the Hoover Institution at Stanford and a Distinguished Visiting Fellow of the Council on Foreign Relations. He is an Adjunct Professor at Bocconi University in Milan, and an Honorary Fellow of Magdalen College, Oxford University. He joined Donna Kwok, Head of Asia Pacific Strategy at UBS Asset Management in a webinar to discuss the implications of the COVID-19 pandemic on topics including technology, globalization and inequality.

Key webinar takeaways

- The pandemic has been a significant global shock in terms of income distribution
- There has been an increase in poverty everywhere. The rich, powerful economies should provide medical and financial support to vulnerable economies
- While Artificial Intelligence presents a threat to certain roles and sectors, it also offers the powerful set of tools for inclusion for low access populations
- It is a question of striking the right trade-off between scalable inclusivity versus loss of privacy or control over one's own personal data to optimize growth and reduce inequality
- COVID-19 has sharpened the rate of technological transformation and digital adoption, creating winners in intangible (digital) products and services
- Diversification matters: expect the frequency of highly disruptive "black swan" events to rise. Mainly intangible, digital assets are the best hedge against future unpredictable events
- The world will have to reconstruct a more complicated version of globalization given the enormous areas of mutually beneficial areas of cooperation
- The impact of an effective vaccine's discovery, production and distribution will be globally uneven
- Investors will have to pay more attention to very aggressive policy intervention in the future

The world in the grasp of COVID-19

You are currently involved in research highlighting the importance of an asset's tangibility and mobility when determining their value, in what you call as today's "pandemic economy." What key trends are you observing?

The best way to track the relationship of the virus to the economy, is to use real-time data or mobility data which is available globally and estimates economic activity. Almost all economies experienced a sharp drop in activity followed by the start of a rapid recovery, and then a distinct slowing down. While Asia contained the virus very well, outside of Asia we are seeing backtracking with new outbreaks of the virus, so we expect a long and difficult road to recovery.

The pandemic has materially widened the inequality gap. What is your view on the subsequent ramifications on society for the extreme poor and the extreme rich?

The pandemic has been a significant shock in terms of income distribution domestically and internationally. Because of the digital acceleration, those working in knowledge and information roles which can be done remotely were more resilient. In contrast, many workers were in dangerous roles or out of work which correlated to hardship for those at the lower end of the distribution of income. This is not only a macroeconomic setback but also a distinct income inequality setback too.

Even before the pandemic, value in the public markets was increasingly created by intangible assets – assets which are not physical in nature such as digital services. During the pandemic, market valuations on those assets exploded due to the digital acceleration. Intangible assets are created in sectors with few workers and company owners, which accelerates the path of wealth inequality that we were already on.

In your opinion, how far away is the medical industry from a viable vaccine? Will we see the key trends continue once a vaccine has been distributed?

There is a reasonable chance of a safe and effective vaccine by the first half of next year but the manufacturing and distribution on a global scale would happen later in the year. Questions will need addressing on how long the vaccine could last for and if multiple vaccines will be required. We could see divergence among economies in terms of vaccine distribution. Asia is closer to a V-shaped recovery than anywhere else.

Which countries did well at containing the virus early on?

In my view, Singapore, Vietnam and Hong Kong had the virus under control. Taiwan followed a similar course to Mainland China. In general, countries in Asia had more aggressive and better executed containment measures. The region benefitted from capacity and prior knowledge of pandemics, whereas Europe and US were behind the curve in containing the virus and had to start measures from scratch.

Once the virus is contained and we return to a recovery phase do you think that developed economies will bounce back faster than developing economies in terms of growth?

It depends on individual economies. Brazil was struggling economically before the pandemic but had some success in containment, but I don't think the virus will change the growth trajectory of the country. Some countries will have a reset and see a new growth pattern emerge partly because some sectors will experience very rapid recovery. Once the virus is contained, there will be a new normal focus on renewable energy, commitment to green growth and related investments, which could provide positive outcomes in many countries.

The key themes of the century

Poverty has been the focus of much of your work - how can governments around the world best work together to tackle the effect of COVID-19 on the poorest countries?

The top priority for governments has been to buffer the economic shock and manage public balance sheets through fiscal programs, which has generally worked well. However, the programs were too focused on their own domestic economy. There has been an increase in poverty everywhere as more people have fallen below the poverty line. Governments therefore need to restore employment by transitioning people back to the workforce, especially for the young in society trying to enter the jobs market with fewer jobs available. There is a capacity issue in some of the vulnerable countries. These countries must borrow in hard currencies, not their own currency which presents risks.

These countries need concessionary lending and aid from the big powerful economies to provide the necessary medical and financial support.

Different US Presidential election outcomes may introduce more uncertainties into the economic outlook. Do you think we will see more or less economic nationalism and deglobalization in a Biden victory?

In a Biden administration the US-China tensions will remain on the agenda. The US has the domestic challenge of inequality in income and wealth, while it could be described as a type of nationalism, it has to remain as one of the main focuses in either administration. A Biden administration would see the US rejoin the Paris Agreement to coordinate globally climate change.

We should see a much less aggressive approach to international relations and more support of multi-lateral cooperation on complicated matters such as the digital technology era: data security and storage issues, internet content and so on. I think a Biden victory would mean a more constructive approach to international relations when it really matters.

What is your view on the ramifications on the US decoupling from China and wider economic implications across the global economy?

In the digital space, we will see some fragmentation regardless of who is in power in either country, for example national security concerns of the dual use character of many of these technologies. While there are differences in governance structure and values between the two nations, there are lots of areas where US and China can successfully cooperate including the medical sector, science, certain tech sectors and poverty reduction. We have seen nationalism, populism and a rejection of globalization but in my view, a new structure of globalization can be rebuilt, more considerate of environmental or distribution issues. China also plans to continue the opening up of the financial sector.

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Professor Michael Spence, Nobel Laureate

Artificial intelligence (AI) is on the rise, are you concerned about Robots displacing workers in the future?

First, AI is hugely powerful and one of its profound impacts is making robots smarter. Industrial robots in distribution centers will soon be widespread which is not necessarily a threat to the workforce in advanced economies. We will need to transition to work alongside robots which requires learning a new skillset and adaptation. Looking to developing economies, Asia has leveraged the global market with its comparative advantage (what is sold to the global economy) in labor intensive manufacturing, processing and assembly operations, which could all now be at threat.

Digital technologies have a high fixed, low cost characteristic meaning software is replicated without cost. As such, there are questions about future growth models in developing countries and to what extent they would still be

connected to the global economy.

Second, tremendous opportunities exist, particularly in China with its rapid digitalization of mobile payments systems, e-commerce and finance sectors which can be adapted and replicated elsewhere to produce inclusive growth patterns.

Finally, AI is used for a reduction in inequality in many industries on a global scale. One example is the healthcare sector, with the emergence of telemedicine and AI partners which can scan all the literature for doctors and propose the relevant reading. Although we are in the early stages of being able to take full advantage of the progress on a global scale; responsible behavior, regulation, definition of rights and transparency could provide the foundation to benefit fully from these digitally enabled AI powered services.

What are the biggest lesson investors should take from the pandemic?

Investors should be mindful of any company or sector which is not digitally enabled because the digital acceleration we have seen has jarred a lot of sectors which were too slow (to adapt).

In addition, investors could consider selecting companies that perform well in all market environments, that are not over leveraged and as a result show resiliency through a crisis. Meanwhile, environmental issues create significant macroeconomic risks. Sustainable investing is no longer optional but must be taken into consideration for investment decisions.

We have seen the rise of intangible assets and industries. Will the tangible assets – assets which are physical in nature or offered offline – still have room to grow in the future?

Yes, they can still flourish. There is no doubt that digital capital like data adds value to intangible assets such as recommendation engines, search engines or location specific services. That is not to say though that well managed companies that largely create value through labor intensive tangible assets will not perform. They suffered during the pandemic but that was a one-off event. I do worry about asset ownership concentration, where ownership sits among a small number of people which could exacerbate income distribution issues. Certain sectors will have to embrace the digital transformation.

“Any country or sector which appears oblivious to the importance of digital technology is probably not a good investment. The digital acceleration is real and has jarred a lot of sectors which were too slow (to adapt).”

Professor Michael Spence, Nobel Laureate

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