

The Economic Consequences of the Pandemic

World Affairs Council of Philadelphia

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Bold Predictions

- A new age of technology adoption.
- The end of commuting.
- The demise of retail.
- The reversal of globalization.

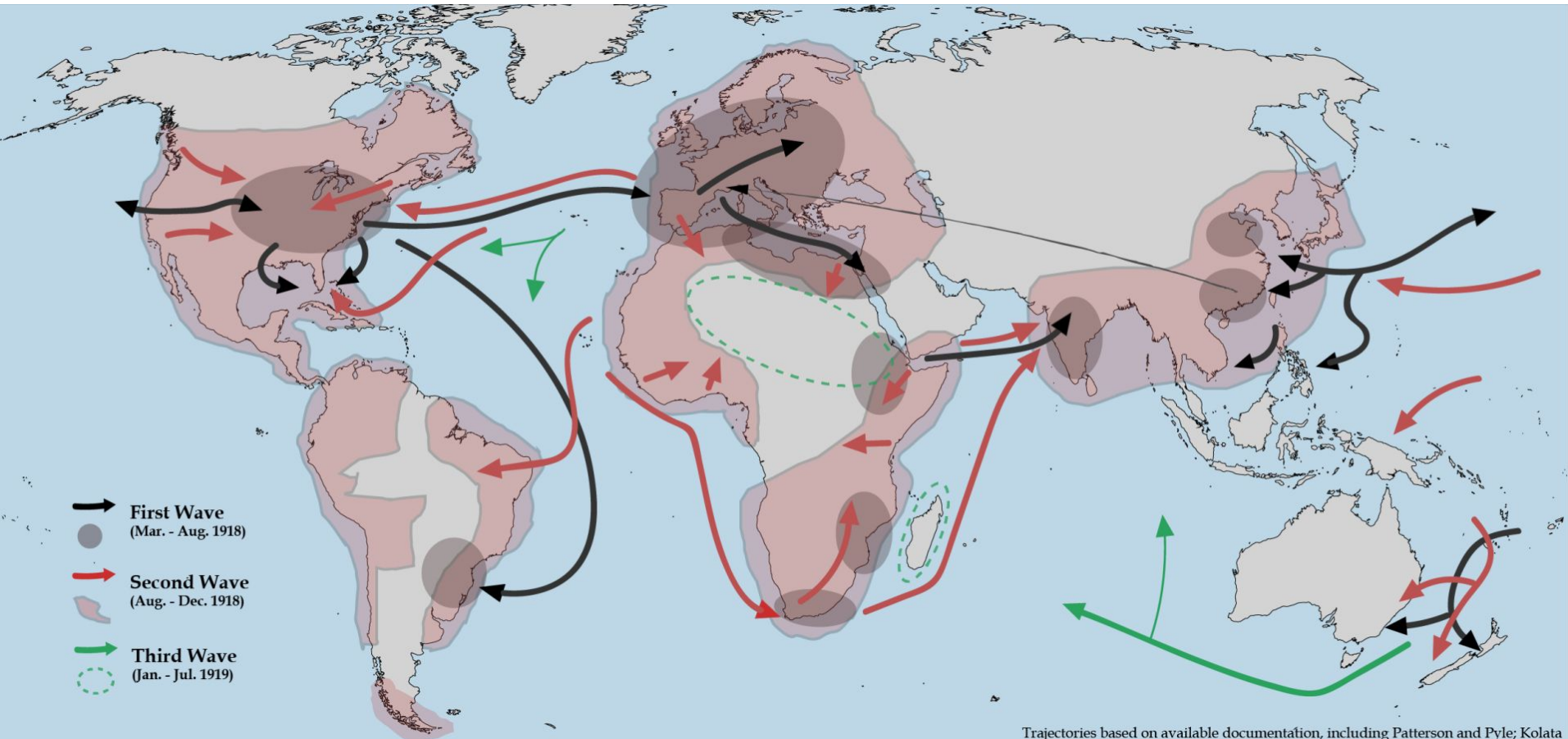
Plague of Justinian, 541-549



Black Death, 1347-1351



Influenza, 1918-1919: The “Forgotten Pandemic”



The New Business Landscape

- Intensification of pre-existing trends:
 - Use of technology.
 - Remote work.
 - E-Commerce.
 - Reconfiguration of supply chains.
 - Automation.
 - New consumer preferences and groups.

Chief Financial Officers (CFOs)

Which of the following is your company planning to implement once you start to transition back to on-site work?
(Select all that apply.)

■ April 22, 2020 ■ May 6, 2020

Make remote work a permanent option for roles that allow it



Accelerate automation and new ways of working



Reduce real-estate footprint



Source: PwC COVID-19 US CFO Pulse Survey
April 22, 2020: base of 305; May 6, 2020: base of 288

Reconfiguration of Supply Chains

- Companies were already rethinking their supply chains before the crisis:
 - 2011: Japanese earthquake and tsunami.
 - 2018-19: U.S./China trade war: Companies shifted their sourcing towards Vietnam, Taiwan, Mexico, and Eastern Europe.

Reorganizing the Supply Chain

- From “just in time” to “just in case.”
- Create redundancies: supply chain diversification.
- Create buffers: higher levels of inventories.
- Strike a different balance between efficiency and reliability.
- Value chains will be shorter and more diversified in the future.
- Use of technology.

Trade in Tasks

- Trade in tasks occurs when workers perform their jobs from a location in another country:
 - A radiologist interprets an X-ray.
 - A computer programmer creates code.
 - A professor teaches a class.
- **37%** of all American jobs can be **completely** performed on a remote basis. That's true in other countries as well.
- We will see more international trade in tasks
 - Offshoring of tasks.

Automation

- New incentives: building resiliency.
- Manufacturing.
- Service sector.
- Customer-facing jobs.
- Up to half of jobs could disappear in their present form. Others will be created.

U.S. Manufacturing Output and Employment, 1987=100

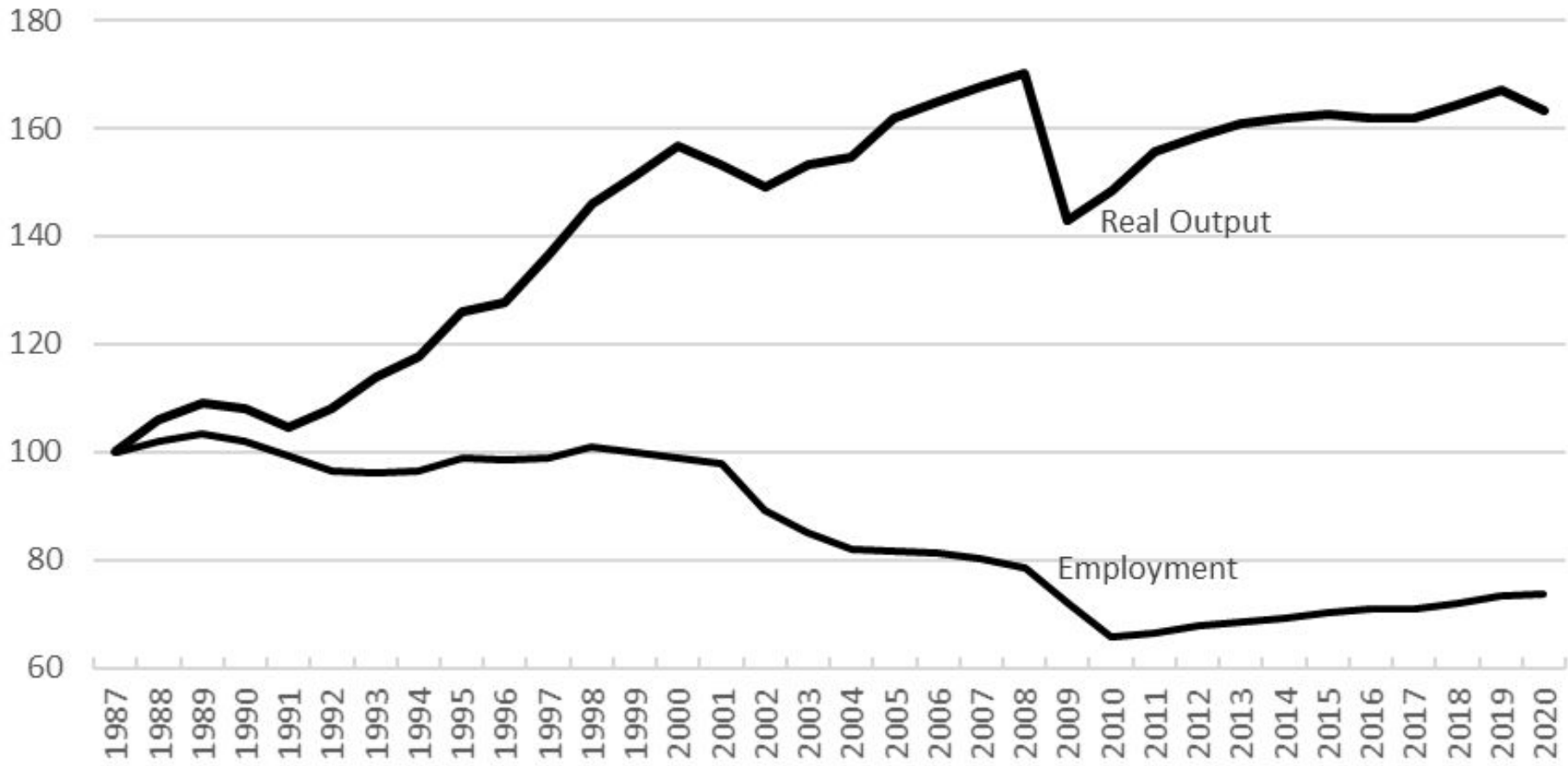


Chart by Mauro F. Guillen. Source: Federal Reserve Bank of St. Louis.

Industrial Robots per 10,000 Manufacturing Workers

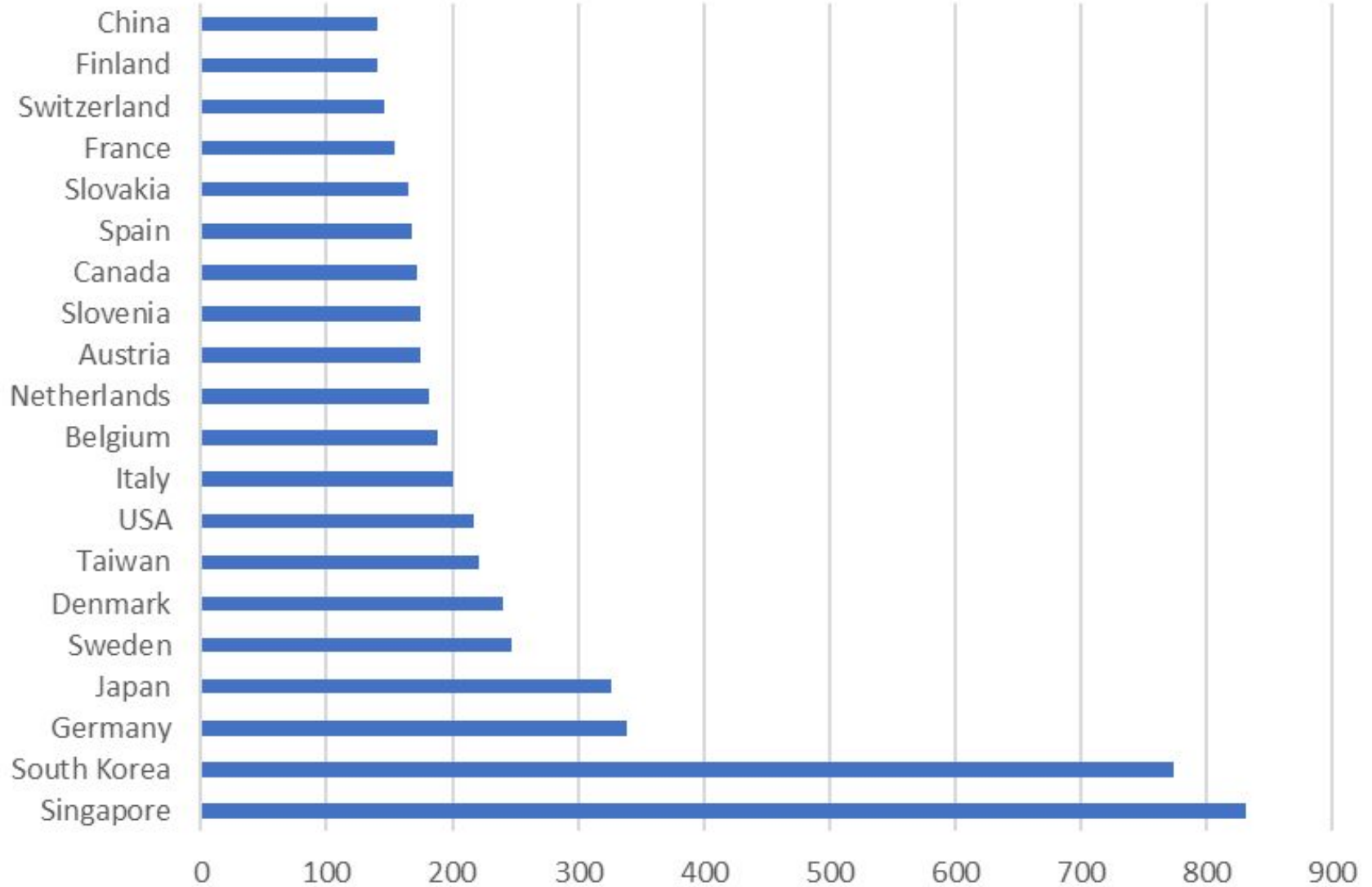


Chart by Mauro F Guillen. Data: International Federation of Robotics.

Service Sector Automation

- Hospitality.
- Healthcare and tele-medicine.
- Education.
- Legal.
- Office work.
- Retail.

New Consumer Preferences:

Product Attributes

BROAD

- Functional
- Social
- Self-expressive

NEW FOCUS

- Safety.
- Experience.
- Comfort.

Shifts in Consumer Preferences

- Physical and mental wellbeing?
- Quality of life?
- Quality time?
- Safety?
- More space in the home?
- Small pleasures—the simple things in life?
- Introspection and soul-searching?

Will Globalization Be Reversed?

- **Demography:** Fewer births and population ageing.
- **Politics:** Rise of populism and xenophobia.
- **Economy:** Temporary reduction in trade and investment, driven by the recession.
- **Society:** Rising inequality.
- **Virtual interconnectivity and technology.**
- **Public health:** Frequency of epidemics.
- **Geopolitics:** Europe, China vs USA, EEs.
- **Climate:** Global warming is a global issue.

Recalibration of Globalization

- Relocation and diversification of offshoring rather onshoring.
- Growing importance of emerging markets, but increasingly driven by their own middle classes.
- Reduced physical immigration, but with growth in remote work and virtual teams operating on a global scale.

One Potential Trend Reversal

- Pre-Covid cities:
 - Growing at a rate of 1.5 million additional residents every week.
 - 1% of the land, 55% of the population, 80% of the carbon emissions.
- Post-Covid cities:
 - Developed world: People may reconsider their residential and work decisions.
 - Emerging markets and developing countries: Urbanization likely to continue.

Resources

- Visit my website for free sources of information, presentations, and videos:

<https://whartonmgmt.wufoo.com/forms/covid19-resources/>

Online Courses

- Analyzing Global Trends for Business and Society.

<https://www.coursera.org/learn/wharton-global-trends-business>

- Managing the Global Firm.

<https://online.wharton.upenn.edu/leadership-and-management-certificate/>

- Managing in the Global Digital Economy.

<https://online.wharton.upenn.edu/courses-global-digital-management/>

- Globalization: Social, Economic, and Political Aspects

To be launched in the Spring of 2021.

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