Unprecedented: Converging Crises
Foresight View
Amidst the planetary emergency of climate change, the COVID-19 pandemic is testing modern civilization’s preparedness for shocks across spheres of finance, economics and technology; global, national and regional governance; global and population health; social cohesion and food security. While the vast majority of businesses around the world are today in the throes of the immediate impacts of the pandemic, it is important to state that the consequences of this abrupt global change will reverberate beyond the coming decade, much like the repercussions of the 2007-10 financial crisis.

At this point, it is fair to ask, “What is the use of foresight when our own organization, our clients, the cities and countries where we live, work, and play are responding to an immediate global crisis?” Scenario planning is, in fact, a powerful tool for thought that trains our minds to develop strategies that can respond to all plausible futures and, more immediately, can identify blind spots in organizational strategy. Since more epoch-defining crises are in the pipeline in the months and years ahead—which is why this document is entitled “Unprecedented: Converging Crises”—it is as crucial to identify and illuminate blind spots, as it is to address them.

Over years of participating in futures projects, including in public and global health, I can state that:

• COVID-19 is not a surprise. It is not a black swan. Scenarios incorporating pandemics have been explored in various private sector, public sector and NGO environments for decades;

• This is globalization’s shadow. Key drivers of pandemics include social overcrowding, more opportunities for animal (zoonotic) viruses to jump to humans, and interconnected transportation hubs that radically increase the speed and spread of outbreaks;

• Postwar public health advancements were built on historic circumstances. More than a decade of cuts to global health and public health funding internationally have made our world more vulnerable to future outbreaks; and

• The Converging Crises Era is here. We are now experiencing TUNA (Turbulent, Uncertain, Novel and Ambiguous) conditions directly. Climate change—and similar non-linear shocks such as cyberattacks, social protest, and warfare—remain a perennial concern, even as COVID-19 pandemic response and recovery efforts unfold.
For global health, epidemiology and pandemic response experts, the COVID-19 global shock is a crisis foretold. The global health community warned leaders for approximately two decades of the increased risk of a pandemic and the world’s woefully inadequate preparedness for its dire consequences. The U.S. national intelligence community was well aware of all-encompassing dangers posed by pandemic threats.

Even when credible warnings make a catastrophe such as a pandemic appear inevitable, the actual consequences continue to shock as they reverberate globally. Poor preparedness contributes to citizens’ trauma when citizens become aware that experts’ early warnings went unheeded. Hence, the global systemic consequences of COVID-19 are stunning even active participants in pandemic simulations. Social media messages shared among healthcare workers in China, Italy, Spain—and now the UK and U.S.—reveal human vulnerabilities intertwined with statistics.

In the case of COVID-19, early warning systems have simultaneously supported and failed the global commons. Today, while the world struggles to marshal the expertise and infrastructure for adequate pandemic surveillance and response, recall that global and public health bodies have endured years of material funding cuts that severely limited the world’s emergency preparedness capacity.

Now, and in the years ahead, inadequate corporate and institutional preparedness for crises for which there is evidence-based foreknowledge will negatively impact clients, multilateral institutions, and NGOs. Inadequate preparedness for known perils (to name just five: cyberattacks, food insecurity, global health crises, social volatility, and extreme weather and climate change) implies that lessons from the COVID-19 pandemic must be learned—and applied as soon as possible—to address an altered risk management landscape characterized by abrupt change.

After acute phases of the COVID-19 response are complete, business leaders must ask what they can do to emerge from the COVID-19 pandemic. How can they position themselves to succeed in a turbulent world for which there are limited strategic advisory, operational, organizational, or social resources to aid effective and comprehensive adaptation?
Shockwaves

The COVID-19 pandemic’s shockwaves are revealing structural weaknesses in the globalization model, and among geopolitical and economic actors. Some sovereigns face an acute risk of losing short-, medium- and/or long-term borrowing capacity, in part because investors’ anxiety about unanticipated shocks raises questions about contextual assumptions that drive demand for government-issued bonds. Social distancing, self-isolation and quarantine measures have had an immediate and severe impact on personal livelihood, making plain the value destruction inherent in widespread income and wealth inequality and debilitating consumer and corporate debt levels. Furthermore, society’s reliance on people with lower and/or subsistence incomes, in areas such as food service, grocery and delivery, could require a deeper acknowledgement of their societal contributions, which, if not conferred, may result in tensions with labor.

Longer Term Consequences

Far from planning around the new world order post-COVID-19, current leaders struggle to comprehend the full extent of the global shock that is in motion. Circumstances are ripe for a negative-growth global economy. The emerging economy will be even more fragile in the face of rippling systemic shocks, much as a locale recovering from an earthquake is vulnerable to aftershocks.

During the next 18 to 24 months, further shocks that dampen the impact of fiscal stimulus are likely to occur. The COVID-19 pandemic crisis could play out over 18 to 24 months (or longer). Yet, COVID-19 does not stop the clock for other global risks. According to blue-ribbon expert bodies, the facts tell us the stage is set for multiple plausible (“not if, but when”) risks: 100-year droughts, floods and storms caused by climate change; cyberattacks upending democratic society; a “mega quake” that could hit the Pacific Northwest (Canada and U.S.)—the list goes on.

Institutional Response

The current crisis is more complex than the 2007-10 financial crisis, given its catastrophic impact on global finance, numerous industries, national economies, global and population health and planetary health. The current crisis also presents considerable risks to livelihoods because of a growing base of workers in the precarious work, including the automated gig economy. Governments in a number of high-income countries are striving to soften the COVID-19 shock and have promised funds for Main Street businesses and service-industry workers. Vulnerable businesses, individuals and families will see short-term relief, while the financial sector and core industry businesses are likely to receive longer-term support.

Swift institutional action is required because consumer debt burdens that were manageable in the post-Financial Crisis era of have become untenable. Significant corporate debt burdens that grew through Central Banks’ quantitative easing measures are now distressed, compounding the risk of business failures. Desperate hope for an equilibrium that restores stability to global markets may increase risky financial gambits aimed at minimizing losses or increasing yield. Fire sales of well-performing liquid assets mean that weakened debtors hold a higher proportion of risky assets.

Whether governments support the right entities to ensure a stable recovery will become a source of considerable controversy. In addressing COVID-19, governments must engender trust to reduce risks of social disorder. Misinformation and disinformation spread through social platforms could make this task much harder.

Sovereign Credit Ratings Worsen

Several states could fail as the result of converging stressors, from the oil price shock caused by Russia and Saudi Arabia flooding markets with supply, to the COVID-19 shock and resulting measures to address it. Fiscal and monetary measures addressing the crisis will lead to unintended consequences, including inflationary pressures and limited capacity to address the next crisis.

Strategic Companies Face Nationalization Risks

Companies that are seen to be national strategic assets, but whose sources of revenue and financing dry up amidst the COVID-19 pandemic—such as those in transportation, agriculture, food production, warehousing, healthcare and life sciences—could find themselves facing nationalization, or semi-nationalization, under national security or other public safety grounds. This would likely change market dynamics and deepen governments’ ownership stakes in private entities.

International Conflicts, Emergency Response and Rights Abuses Converge

As the northern hemisphere entered its traditional summer fire season, evacuating communities vulnerable to wildfires was more complex because of potential ongoing lockdowns and new risks for emergency responders. Human migration associated with the COVID-19 pandemic could yield human rights abuses, including of those political refugees prevented by pandemic restrictions from fleeing conflict zones. Certain nation states are likely to scapegoat political groups and religious and ethnic minorities as sources of COVID-19, and deny humanitarian aid to these individual and groups. As a result, COVID-19 could also contribute to heightening food and water insecurity in many jurisdictions.
More Seeds of Social Volatility Are Planted
In countries around the world, consumer-citizens believe their children will not grow to enjoy lives as prosperous as their own. Given the sense of intergenerational injustice that younger generations are reporting, this does not bode well for social stability. It is plausible that social volatility will become more acute and that private and public sectors will need to address such challenges individually or by working together across the public-private sector divide. It cannot be emphasized enough that governments need to ensure that people have ready access to food, particularly those among working poor, people living with disabilities, vulnerable women, children and families, and Indigenous peoples. A food crisis instigated by COVID-19 and made even more acute because of a shock in food commodity prices could create significant social duress and protest. Society may also increasingly require government food rations as COVID-19 unfolds.

Population Health Suffers from Chronic Mental Health Burdens
The mental health toll triggered by the COVID-19 crisis affects people with existing chronic conditions disproportionately. Based on loss of income alone, it will trigger new instances of depression and anxiety at a population scale, adding additional burdens to health systems globally, which have already seen tremendous upticks in mental illness and other population health challenges, including non-infectious diseases such as diabetes, obesity, heart disease and cancer. Deaths from such serious illnesses will grow if COVID-19 continues to be the top priority.

Stakeholder Capitalism Takes Root
Stakeholder capitalism faces a litmus test. Companies can focus on stakeholder relationships during the pandemic crisis as a way to build trust and operational capacity after a transition to greater normalcy. Those companies that pass this test and tout improved business results can use their success to convince shareholders that a stakeholder approach will serve shareholders better in good times and in adversity, with a positive correlation between ESG investments, business resilience and sustainability.
Potential Implications for Legal Teams

Illustrative implications from now to 2022

Regulator Empowerment
A weakening of the corporate sector may place lobbyists in a challenging position. Some governments have taken lessons in populism from the 2007-08 financial crisis and may be less forgiving to certain corporate sectors that managed to avoid tougher regulatory and compliance approaches, particularly financial and technology concerns.

Re-ordering of the Business World
Companies that come out of the COVID-19 pandemic crisis relatively stronger than their industry competitors will have an edge in dealing with the climate and other converging crises. The COVID-19 pandemic is a harbinger of global converging crises. The COVID-19 pandemic crisis relatively stronger than their industry competitors will have an edge in dealing with the climate and other converging crises. The COVID-19 pandemic is a harbinger of global converging crises.

North American Tension
Depending on how Canada, the U.S., and Mexico address the unfolding crisis from public health and corporate integrity points of view, tensions could rise even as USMCA/CUSMA implementation moves forward. The U.S. may use its formidable power to re-open negotiations with Canada, particularly if Canada’s response to the pandemic leaves the country in a relatively stronger position than the U.S. post-COVID-19.

Asia Pacific Weakness
Private sector debt, corporate insolvencies, and challenges facing Asian countries that are dealing with the global health crisis occurring within and outside their borders will lead investors to question their assumptions about a longer-term ascendency of twenty-first century Asian powers. Speaking of which, the Belt and Road Initiative (BRI) will come under significant pressure because China may not be able to fund as many infrastructure projects in Silk Road economies, given the dire economic and financial straits in which some of these economies may find themselves after the COVID-19 pandemic.

Eurozone Fragility
The COVID-19 pandemic will heighten internal pressures within the Eurozone that also coincide with Brexit-related negotiations, the Italian debt crisis, and growing (mostly) right-wing populism. With border controls again becoming a flash point, the likelihood of further Eurozone disintegration has increased, with significant implications for our clients across industry and practice groups, including trade, commerce, data privacy and information governance practices.

Consumer Goods & Retail
Consumer psychology and buyer behavior during this crisis will be telling, in part because of the global scale of the COVID-19 pandemic and its disruption of our daily routines. Consumers may be looking for goods and retail experiences that are comfortable, nostalgic, needed and new. It will be important to see data on consumers’ relative trust in goods and online retail—especially how well consumer goods manufacturers and retailers deliver a product mix that assuages anxiety while serving the desire for novelty amidst stifling routine. The pandemic may redefine what certain consumer segments believe is essential. Hedonism and austere consumerism will both find voice.

Energy, Mining & Infrastructure
Energy demand shocks, the oil price war, and disruption to global supply chains could affect investment considerations for energy and mining concerns, and for investors in both sectors. On the infrastructure side, particularly in Asia, given the multi-trillion-dollar BRI, much will depend on how Asian economies fare when faced with increasing pressures on private and public sectors debts. In Asia, there may well be health infrastructure opportunities to prevent and/or limit future outbreaks in Asia Pacific so that the region’s increasingly integrated economy enjoys even greater resilience from global health shocks.

Financial Institutions
Regulators and investors were already challenging Global Systemically Important Banks (G-SIBs) and Global Systemically Important Financial Institutions (G-SIFIs) for their potential vulnerabilities to climate scenarios of 1.5 degrees Celsius, 2 degrees Celsius, and more. The COVID-19 pandemic should expose risks within portfolios and may also make it harder for G-SIBs and G-SIFIs to rebuild the capital buffers they might need to deal with anticipated impacts of the climate crisis at all temperature ranges (even those that may appear benign).

Healthcare & Life Sciences
Pharmaceutical companies faced challenges with drug pipelines prior to COVID-19. It is not unreasonable to assume that drug makers will face even bigger hurdles to profit from drug pipelines after COVID-19—and that investor sentiment may sour. Big Agriculture, on the other hand, is facing the inexorable risk of climate change, with or without COVID-19. That is why investors will focus on growth opportunities in seed innovation, new crop varieties, and precision agriculture, since advancements in these areas will most likely take place among an elite group of agricultural science behemoths.
Key Questions

Questions for In-House Legal Teams

1. As we navigate the COVID-19 crisis, how can Baker McKenzie work with you to support alignment between business and legal strategy?

2. What are some gaps between business and legal leadership that Baker McKenzie could help illuminate?

3. How could Baker McKenzie’s foresight capabilities help you to understand the global risk environment and develop a shared language for addressing global challenges that your organization can anticipate?

Hotels, Resorts & Tourism
How might pandemic-friendly hotels and resorts emerge amidst the devastation of COVID-19? Could companies push boundaries for enhanced surveillance to monitor the health of tourists and guests? Facilities with sophisticated onsite hospitals, onsite physicians and nurses; outdoor facilities that allow for physical distancing of guests diagnosed with viral infections; gyms designed for physical distancing and/or one-person workouts in sterile gyms; and super food-safe kitchens. Tourism may also need to become hyper-local to survive until global travel restrictions relax enough to meaningfully reboot travel.

Industrial, Manufacturing & Transportation
The COVID-19 shock provides a high-pressure strategic opportunity to rethink supply chain operations for flexibility and adaptability, with improved consideration of reshoring, nearshoring and on-shoring. Such moves could be costly and entail significant risk, but could position entities for a world in which more frequent and powerful extreme weather will take an enormous toll on supply chains. Heeding the consequences—and the warning—of the COVID-19 shock could make IMT supply chains less vulnerable to a wide range of coming disruptions.

Private Equity
Too much leverage can be fatal for private equity firms, acquired companies and struggling companies with strong fundamentals but too much debt, which are about to be acquired by strong private equity players. There are deals out there, and the COVID-19 shock may lead to further consolidation among private equity players.

Real Estate
There may be a rush to safe haven real estate assets as investors evaluate public health responses to COVID-19 in order to determine which regions have the best pandemic preparedness program, and are steered towards an economic growth path because of that adaptive capacity. On top of the significant pressure on commercial leasing because of the shock to tenant businesses, opportunities are ripe for pension and sovereign wealth funds to seek deals in a stressed commercial real estate market.

Technology, Media & Telecommunications
Platform vendors, web services behemoths, and telecommunications providers should benefit from the COVID-19 shock since there will be demand from their services that in some cases could exceed capacity. IT support vendors should benefit as well. Pressure on non-essential subscription services may yield winners and losers. For example, online news subscription services may suffer at the expense of streaming services, which some consumers feel are essential to distract attention as the COVID-19 crisis unfolds.
Principles for Understanding the 21st Century Risk Environment

Principle #1
Risk outweighs opportunity

After the Second World War, the business environment in the West was characterized by opportunity with underlying risk. Today, 20 years into the twenty-first century, the new risk-opportunity equation is characterized by risk with underlying opportunity. If one were to design the new Snakes & Ladders board game for this century, there would be more snakes and fewer ladders. For professional services firms, this may mean that being more skilled at helping mitigate material risk will define the winners and losers.

Principle #2
Wealth destruction is a key theme

This principle follows from the first. The rise in geopolitical, socioeconomic, physical and mental health, technological, ecological and climate risks means, almost by definition, that over time the destruction of wealth will occur. A direct correlation between the loss of natural capital and financial capital may become evident after a corner turns on the COVID-19 pandemic.

Principle #3
Wise advisers are needed

In aggregate, professional services have contributed to corporate activities that expanded global risk around climate change, resource exploitation, overconsumption, technological acceleration, and more. Arguably, key advisors, trained in increasingly specialized disciplinary slices, are associated with the fragmentation of holistic perspective on global change and corporations’ role in a civilization facing numerous existential threats. There is a shortage of advisers with world-class functional expertise and holistic perspective.

Principle #4
Bad news must be communicated well

Natural disasters driven by the climate emergency are happening concurrently with the COVID-19 pandemic. Economic and social dislocation will also be a feature of the twenty-first century risk environment. How effectively and skillfully leaders are able to deliver bad news and maintain morale will define many organizations’ adaptive capacity to succeed amidst abrupt change.

Principle #5
Flexible decision making is essential

In our age of existential risks, typical boardroom debates about trade-offs between risk and opportunity fail to capture that, in an existential risk environment, risk becomes so great that opportunity cannot be secured without building resilience across the extended enterprise. Choosing whether to reestablish head offices to avoid risks of sea-level rise, building headquarters fortified against severe weather impacts, and locating supply chains in jurisdictions best placed for various shocks requires flexible strategic and operational decision-making approaches. At their best, these approaches strike a fine balance between hierarchical and flat cooperative decision-making structures and processes.
Selected Industry Leader Reactions to COVID-19

“Among the biggest issues related to this crisis—and other crises we have foreseen and rehearsed—are that chronic illnesses and scientific illiteracy are factors that limit our nation’s ability to respond.”

– C-level executive

“The current pandemic was all too predictable. At a strategic think tank, I helped develop bio-designed pandemic scenarios post-9/11. The exercise involved the most senior political leaders and government officials. We were horrified to learn that our nation was not prepared for a pandemic.”

– Management consultancy partner

“We saw this coming for some time in the global health community. We knew it would expose vulnerable health systems around the world, as well as the people who need them, to severe harm.”

– Global medical humanitarian leader

“We are holding off on our sustainability activities until we address acute challenges posed by COVID-19 among our customers. We are simultaneously building a sustainability centre of excellence to support activities and initiatives across the financial institution.”

– Chief sustainability officer

“I am worried about cyberattacks at the cyber-physical interface. Attacks that could blow up an oil facility or disrupt hospitals’ and patients’ medical devices. The time is opportune for malicious actors to make such attacks and initiatives across financial institutions too.”

– Global cyber security leader

“We will not be slowing our energy transition efforts.”

– Non-executive director, energy industry

“We see the potential of failed states in emerging markets particularly if there’s a prolonged oil shock where oil prices stay under a certain threshold.”

– Head of financial institution business unit
The COVID-19 pandemic continues to evolve in real time. Its implications for Environmental, Social and Governance (ESG) issues—and how these may adversely impact sustainable development and societal resilience—are being actively debated at multilateral institutions, among businesses and governments, social sector actors and grassroots organizations.

As the world’s leading multinational law firm, Baker McKenzie sees an increasing desire among our people, clients and partners to address systemic issues. Top-performing companies, which used to focus on compliance, now emphasize incorporating ESG into business operations and investment practices. As the first global law firm signatory to the United Nations Global Compact in 2015, we report each year on our efforts to address the UN Sustainable Development Goals (SDGs) in pro bono activities—and in our substantive legal and transactional work. This includes work on anticorruption and ethics, clean energy, inclusion and diversity, human rights and supply chains, and Partnerships for the Goals.

Milton Cheng, Global Chair of Baker McKenzie, states in our 2020 report to United Nations Global Compact: “Business cannot operate effectively in a world hampered by poverty, inequality, conflict and environmental deterioration.” Meanwhile, UN Secretary General António Guterres warns that the global pandemic, combined with geopolitical divides and a lack of adequate financial commitments, could set back efforts to alleviate poverty and food insecurity; address corruption and slavery in supply chains; and tackle environmental degradation and climate change.

At Baker McKenzie, our commitment is to harness our deep knowledge and experience with ESG and sustainability to support the creation of a just, inclusive and sustainable world. While we acknowledge tough realities, we also acknowledge the power of the private sector, governments, multilateral institutions and NGOs to navigate greater uncertainty with greater humanity.

We look forward to working with you in that common and life-affirming endeavor.
Our Firm learns from many world-class organizations. These are a few whose work we acknowledge:

- Boston Consulting Group, Creativity and Scenarios (U.S.A.)
- Competent Boards (Canada)
- Dahdaleh Institute for Global Health Research, York University (Canada)
- Global Business Policy Council, Kearney (U.S.A.)
- Global Compact Network Canada, official affiliate of U.N. Global Compact (Canada)
- Health Leadership Academy, DeGroote School of Business, McMaster University (Canada)
- Institute of Corporate Directors (Canada)
- Institute for Human Rights and Business (U.K.)
- International Labour Organization (Switzerland)
- International Organisation of Employers (Switzerland)
- Massey College in the University of Toronto (Canada)
- Master of Business Analytics Programme, Schulich School of Business, York University (Canada)
- Oxford Scenarios Programme, Said School of Business, Oxford University (U.K.)
- Schwartz Reisman Institute for Technology and Society, University of Toronto (Canada)
- Stanford Legal Design Lab, School of Law, Stanford University (U.S.A.)
- Thomson Reuters Foundation (U.K.)
- United Nations Global Compact (U.S.A.)
- United States Council for International Business (U.S.A.)

Baker McKenzie helps clients overcome the challenges of competing in the global economy.

We solve complex legal problems across borders and practice areas. Our unique culture, developed over 70 years, enables our 13,000 people to understand local markets and navigate multiple jurisdictions, working together as trusted colleagues and friends to instill confidence in our clients.

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