

Survey on Year 2 World Covid19

July 5th, 2021

Global Economic Recovery? Private Sector Says, 'Too Early to Tell'

- The “Year 2 World Covid19 Forecast” surveyed business federations & international organizations in 18 major economies
- Recurring regional outbreaks of COVID-19 (84.1%) delay recovery (57.9%)
- 2021 growth outlook lower than IMF's 6% (52.4%), negative growth expected (38.1%)
- Possible wave of corporate bankruptcies (38.2%), fiscal policies should support businesses in order to create jobs (80%)
- Globalization & multilateralism unlikely to recover (57.2%), U.S.-China economic power competition likely to intensify (90.5%)

The private sector around the globe predicts that the global economy will show a slow recovery due to recurring regional outbreaks of COVID-19, which is a gloomier outlook than the one promoted by governments and international organizations.

From May to June 2021, the Federation of Korean Industries (FKI) conducted a survey titled “COVID-19 Year 2 Forecast: The Age Defining Moment.” The respondents included business federations representing 18 major economies which together account for 52% of global GDP, and 3 international organizations representing regional economic blocs such as EU and OECD¹.

[Economic Outlook] Global economic recovery, “too early to tell” Recurring regional outbreaks of COVID-19 (84.1%) delay recovery (57.9%), Many even expect negative growth (38.1%)

With concerns mounting over the spread of the variants of COVID-19, international business communities’ predictions for global economic recovery are far more somber than forecasts made by international organizations. When surveyed about the global recovery from COVID-19, the majority (84.1%) of

¹ Respondents

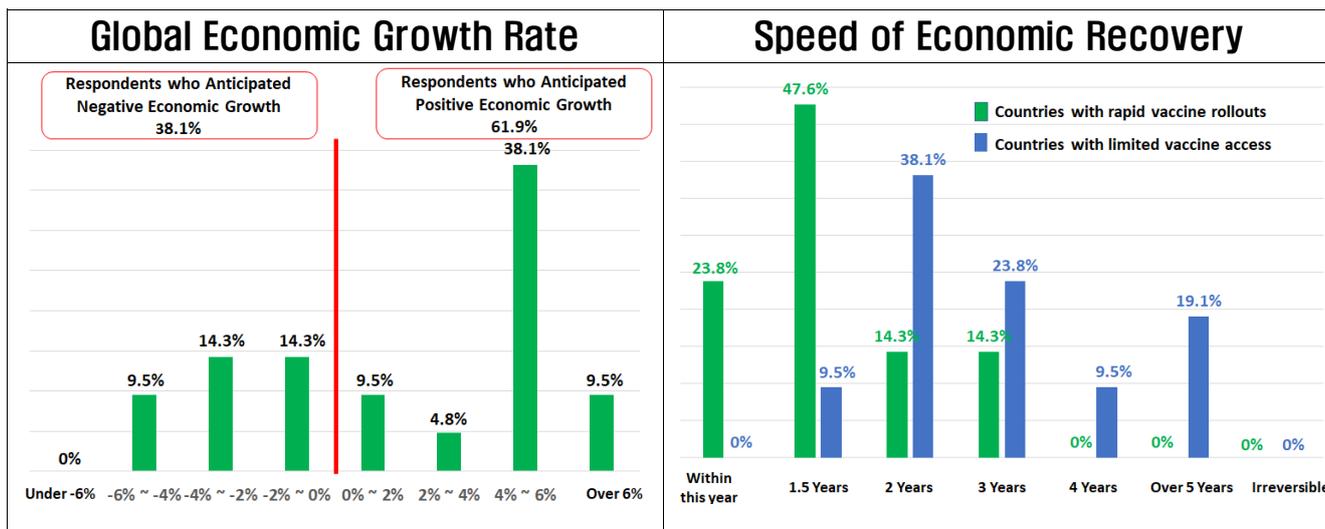
Business Federations (18) : Germany, UK, France, Spain, Sweden, USA, Canada, Chile, Mexico, Argentina, Australia, New Zealand, Papua New Guinea, Egypt, Turkey, Japan, Viet Nam, South Korea

International Organizations/Associations (3) : GBC(Global Business Coalition), Business Europe, OECD BIAC

respondents said that recurring regional outbreaks of the virus will be mainly characterizing the global economy this year. About half (47.4%) of those surveyed predict that "regional outbreaks will slow economic growth in the near-term," and 10.5% replied that "the virus will also delay recovery in the long-term" (*see question 3 of the survey).

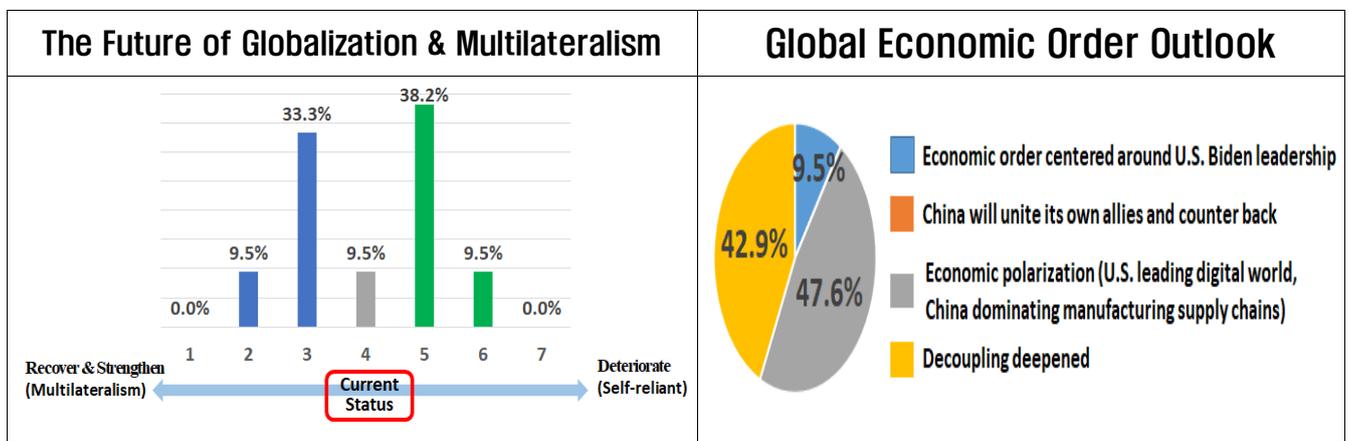
Answers from more than half (52.4%) of the business federations revealed that they expect the economic growth rate for this year will be lower than the 6% predicted by the International Monetary Fund (IMF), and 38.1% even anticipate negative economic growth.

The reason behind this bleak outlook is that the business federations believe there will be a sharp divide in the speed of recovery depending on vaccination rates. They predict that countries with rapid vaccine rollouts will recover to pre-pandemic growth levels in less than a year and a half (71.4%), whereas it will take more than three years for countries with limited vaccine access (52.4%). That is in stark contrast to the positive picture painted by government agencies. Other explanations for their comparatively pessimistic view are ► the organizations understand the gap between the global economy and the economic situation of respective regions and countries, and ► they have direct contact with business world, giving them a better sense of what is really happening in the real economy.



[Trade Order] Globalization & multilateralism unlikely to recover (57.2%), Global economic polarization (U.S.–led digital vs. China–led manufacturing supply chains) expected (47.6%)

Because COVID–19 wreaked havoc on globalization and multilateralism, business federations expect countries will become increasingly self–reliant. If so, it will pose a risk to the export–driven economies such as South Korea. Out of all respondents, 47.7% said that globalization and multilateralism will continue to deteriorate (38.2% expect mild deterioration, 9.5% expect severe deterioration), and 9.5% replied that the current level of deterioration will persist. Lastly, 42.8% expect globalization and multilateralism to recover (33.3% expect a mild recovery, 9.5% expect a strong recovery).

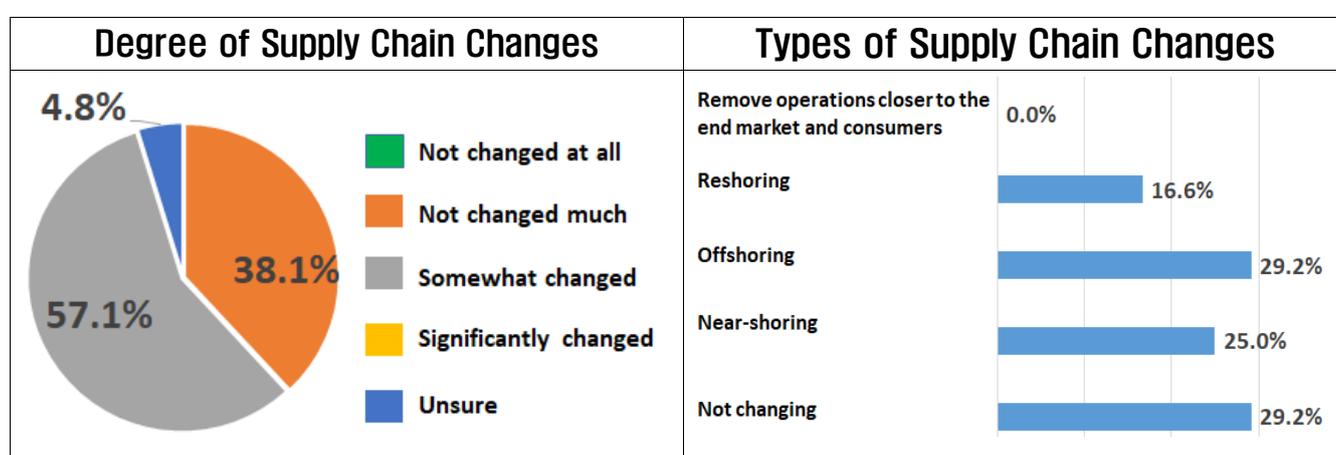


In addition, concerning the global economic order in the face of U.S.–China conflict, the vast majority (90.5%) answered that the economic dispute between the two largest economies will intensify. Nearly half (47.6%) of respondents anticipate economic polarization, with the U.S. taking the lead in digital world and China driving traditional manufacturing supply chains. 42.9% predict intensified decoupling across all sectors of the global economy.

Only 9.5% of respondents think that the U.S.–led global economic order will be strengthened under the Biden administration. Meanwhile, according to the survey, China being the only major economy to achieve positive economic growth last year was the second most unexpected occurrence since the start of the pandemic (22.6%), revealing that countries around the world are paying close attention to China’s rise (*see question 16 of the survey).

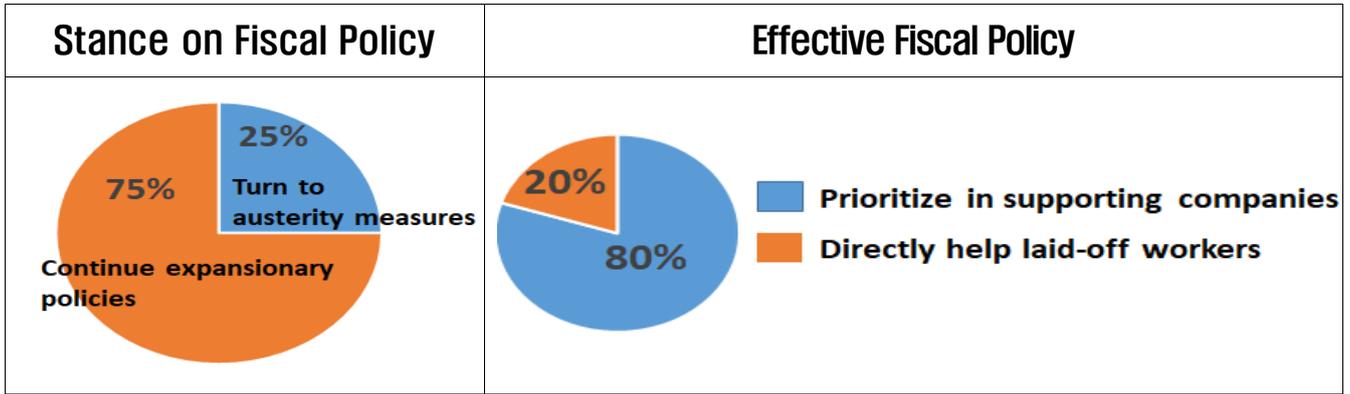
[Supply Chain] Strengthening supply chain resilience through offshoring (29.2%), nearshoring (25.0%), and reshoring (16.6%)

The survey also revealed that the coronavirus outbreak led to changes in global supply chains. More than half of respondents (57.1%) believe that their country's supply chains changed somewhat after the outbreak of the virus, while 38.1% said there was little noticeable change. There were various types to the changes made. One type was businesses increasing overseas expansion — i.e., offshoring (29.2%), where domestic companies diversify operations overseas, and nearshoring (25.0%), where manufacturing facilities are relocated to nearby countries. Another type of reported change was reshoring (16.6%), where companies return to their home countries.



[Fiscal Policy] Expansionary fiscal policies should support businesses in order to create jobs [80%]

The survey revealed that business communities in major economies hold positive views (71.4%) of government support programs that help businesses respond to the pandemic — 38.1% said these programs were very helpful and 33.3% said they were somewhat helpful. Consequently, they suggest that this year governments should stick to expansionary fiscal policies (75.0%) rather than quickly returning to austerity measures (25.0%). The vast majority of those surveyed preferred that governments prioritize supporting companies in order to create jobs (80.0%) rather than directly helping laid off workers (20.0%).

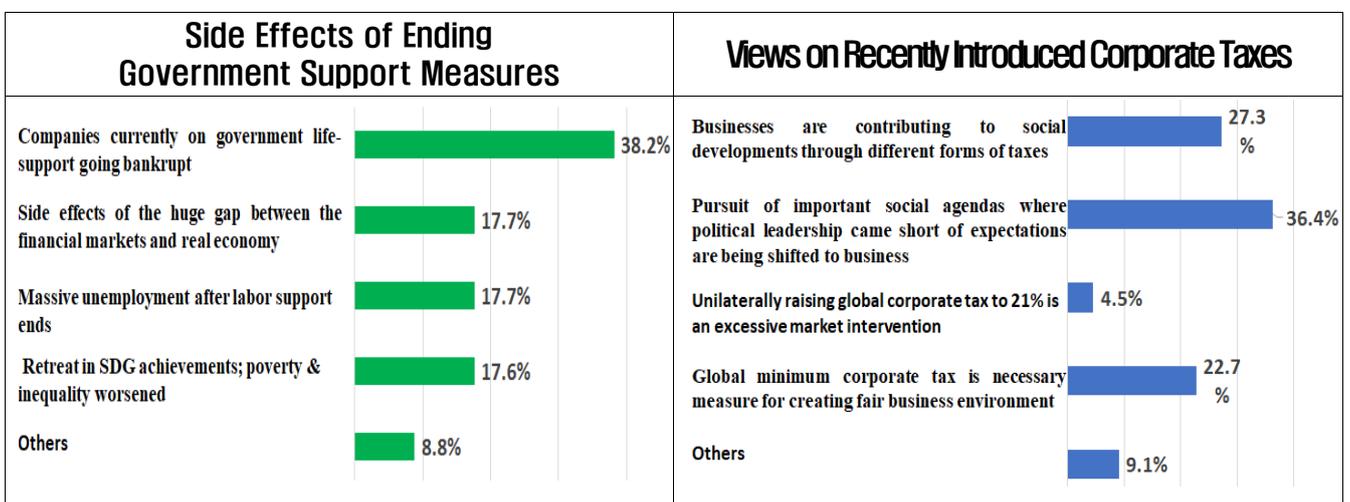


[Business] Possible wave of corporate bankruptcies as governments end support programs (38.2%)

[Taxation] Government policy limitations pass financial burden to businesses through taxation (36.4%)

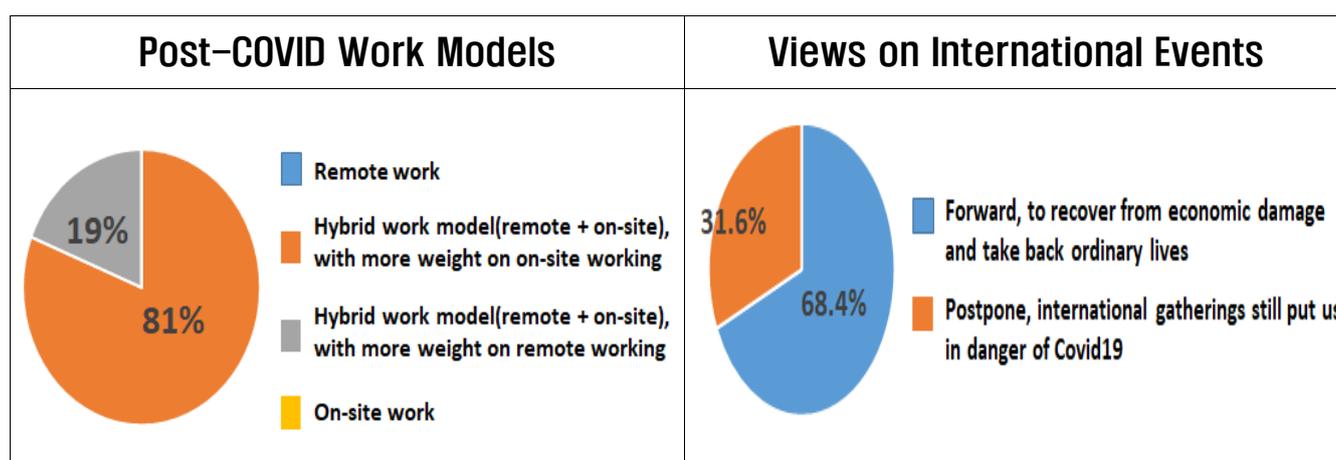
The survival of businesses in the post-COVID era is the top concern among global business federations as compared to unemployment, financial instability, or deepening poverty. In fact, 38.2% of respondents said the most alarming problem that will emerge when governments terminate aid packages will be the “companies currently on government life-support going bankrupt.” Other possible side effects of governments ending support programs include, “side effects of the huge gap between the financial markets and real economy following massive stimulus (17.7%),” “massive unemployment after labor support ends (17.7%),” and “worsening poverty and inequality (17.6%).”

Meanwhile, 36.4% of survey participants also mentioned that the accelerated adoption of a number of new taxes — global minimum corporate tax, carbon tax, and digital tax — seems to “pass the financial burden of handling social agendas from political leadership to businesses.”



[Labor] Permanent changes to the way of work following COVID-19, 100% predict continued remote work model

Business federations indicated that the shift to remote work in the wake of the pandemic is likely to settle permanently, with 81% predicting the adoption of a hybrid model — a mixture of remote and on-site work — with more emphasis on on-site work, and 19.0% predicting the adoption of a hybrid model with more emphasis on remote work. None of the respondents expect a return to traditional full-time office work or a shift to remote-only models.



Surprising global vaccine hesitancy (35.5%) Global economy taken aback by Chinese growth (22.6%)

According to the survey, the most unexpected thing revealed passing through the COVID-19 outbreak last year was “global vaccine hesitancy (35.5%),” followed by the fact that “China being the only major economy to achieve positive economic growth (22.6 %).”

Commenting on the survey, Bong-Man Kim, head of the International Affairs at FKI, said, "Business federations in major economies, which are in close contact with businesses, have a more pessimistic outlook than suggested by international organization's official statistics, and they think it is too early to tell whether the global economy will recover this year." He continued, "We need economic policies that reinvigorate businesses, and considering the survey suggested that a wave of bankruptcies could happen as governments pull back support, the real economy may be in worse shape than the expected. Kim concluded by stressing that “it is more important than ever that government policies focus on the survival of businesses.”

[Survey on Year 2 World COVID19] The Age Defining Moment: How the world will be remade through the uncertainties?

This year the world will witness what would rise as the defining traits of post-COVID era among the unprecedented uncertainties we have experienced. What are your views on this year's global economy?

[Economic Outlook]

1. What is your forecast of 2021 global GDP growth?

Under -6%	-6%~-4%	-4%~-2%	-2%~0%	0%~2%	2%~4%	4%~6%	Over 6%
(0%)	(9.5%)	(14.3%)	(14.3%)	(9.5%)	(4.8%)	(38.1%)	(9.5%)
①	②	③	④	⑤	⑥	⑦	⑧

2. How long will it take for the world to recover its pre-pandemic level growth trajectory?

1) Countries with rapid vaccination rollouts

- ① Within this year(23.8%) ② 1.5 years(47.6%) ③ 2 years(14.3%) ④ 3 years(14.3%)
 ⑤ 4 years(0%) ⑥ Over 5 years(0%) ⑦ Irreversible(0%)

2) Countries with limited vaccine access

- ① Within this year(0%) ② 1.5 years(9.5%) ③ 2 years(38.1%) ④ 3 years(23.8%)
 ⑤ 4 years(9.5%) ⑥ Over 5 years(19.1%) ⑦ Irreversible(0%)

3. What is the most likely scenario for COVID-19 economic recovery?

* 9 Scenarios: Select among <1> 3 likely paths for virus's impact on health

<2> 3 potential levels of economic recovery (Source: McKinsey)

Virus' s Health Impact 	Better ↑ Level 1	① (5.3%) • Contained health impact • Sector damage and lower long-term growth	② (5.3%) • Contained health impact • strong growth rebound and recovery	③ (0%) • Contained health impact • rapid and strong growth rebound and recovery
	Level 2	④ (10.5%) • Recurring health impact • Slow long-term growth insufficient to deliver full recovery	⑤ (47.4%) • Recurring health impact • Slower near-term growth and time to recovery	⑥ (26.2%) • Recurring health impact • Strong growth rebound and recovery
	↓ Level 3	⑦ (0%) • High levels of health impact • Prolonged downturn without foreseeable recovery	⑧ (0%) • High levels of health impact • Slower near-term growth and delayed recovery	⑨ (5.3%) • High levels of health impact • Strong growth rebound and recovery
		Level 1	Level 2	Level 3

4. Among the changes the world is experiencing, what are we least prepared for and therefore most vulnerable to?

- ① Labor changes generated by digital transformation; automation and destruction of existing jobs(24.3%)
- ② Global power shift; from the U.S. to China, from west to east(13.5%)
- ③ The next threat: climate change(40.6%)
- ④ Widening disparity between the regions & countries, companies and households(18.9%)
- ⑤ Others(2.7%)

[Covid19 Coping Method]

5. This year the governments would face decision point on the course of their fiscal policy.

1) Do you think the expansionary fiscal policy should continue this year?

- ① A Turn to fiscal austerity is required this year as excessive government debt has mounted(25%)
- ② A rapid turn to fiscal austerity at this point is risky(75%)

2) According to last year's policy experience in your country, what is more effective method of implementing stimulus plan?

- ① Prioritize in keeping companies alive, consequently creating jobs(80%)
- ② Directly helping workers who have lost their jobs(20%)

6. In your country, to what extent have the government support program helped companies to deal with the negative effects of COVID-19?

Very helpful	Somewhat helpful	Average	They haven't helped much	They haven't helped at all	Helpful, but cost-ineffective
① (38.1%)	② (33.3%)	③ (9.5%)	④ (9.5%)	⑤ (4.8%)	⑥ (4.8%)

7. What would rise to be the most alarming problem after government aids terminate? (Choose up to 2 options)

- ① Massive unemployment after labor support(ex. furlough scheme) ends(17.7%)
- ② Side effects of the huge gap between the financial markets and real economy following massive stimulus(17.7%)
- ③ Companies currently on government life-support going bankrupt(38.2%)
- ④ Retreat in SDG achievements; poverty & inequality worsened(17.6%)
- ⑤ Others(8.8%)

[Business & Supply Chain]

8. What post-Covid changes should business watch out for? (Choose up to 2 options)

- ① Starkly widening gap between strong and weak companies(26.7%)
- ② Tax rises to supplement fiscal deficit (ex. 21% minimum corporate tax) (20%)
- ③ Adaptation and survival to digital transformation (31.1%)
- ④ Strikes against big tech companies; such as digital tax(4.4%)
- ⑤ Transformation to ESG management (8.9%)
- ⑥ Economic damage of U.S.-China conflict and other protectionist measures (8.9%)

9. After the pandemic struck, the importance of supply chain resilience is emphasized.

1) However, it's not easy for companies to rearrange global supply chains. How do you assess the magnitude of change in your countries' supply chain?

Not changed at all	Not changed much	Somewhat Changed	Significantly Changed	Unsure
① (0%)	② (38.1%)	③ (57.1%)	④ (0%)	⑤ (4.8%)

2) If supply chain is changing in your country, particularly in what form?

- ① Reshoring(16.6%)
- ② Nearshoring; remove operations to adjacent countries(25%)
- ③ Remove operations closer to the end market and consumers(0%)
- ④ Offshoring; diversify supply chains overseas(29.2%)
- ⑤ Not changing(29.2%)

10. Remote working is successfully settled, but need for in-person contact was also increasingly recognized. Will the shift to remote work continue post-Covid?

- ① Remote work will settle as mainstream working style(0%)
- ② Hybrid work model(remote + on-site) adopted, with more weight on on-site working(81%)
- ③ Hybrid work model(remote + on-site) adopted, with more weight on remote working(19%)
- ④ After the pandemic is conquered, working form will return to previous on-site pattern(0%)

11. What are your thoughts on the multiple new taxes(ex. global minimum corporate tax, digital tax, carbon tax) being introduced recently?

- ① Unilaterally raising global corporate tax to 21% is an excessive market intervention(4.5%)
- ② Global minimum corporate tax is necessary measure for creating fair business environment(22.7%)
- ③ Pursuit of important social agendas(ex. climate change, fiscal agenda) where political leadership came short of expectations are being shifted to business(36.4%)
- ④ Business are contributing to social developments through different forms of taxes(27.3%)
- ⑤ Others(9.1%)

[Future of Trade]

12. Covid19 has damaged globalization and multilateral systems. Do you think they will be recovered or will they continue to deteriorate?

Recover & Strengthen ←————→

Deteriorate

	①	②	③	④	⑤	⑥	⑦	
(Multilateralism)	(0%)	(9.5%)	(33.3%)	Current Status (9.5%)	(38.2%)	(9.5%)	(0%)	(Self-Reliant)

13. How would international economic order surrounding U.S.-China tension turn out?

- ① Biden will restore international economic order centered around U.S. leadership(9.5%)
- ② China will unite its own allies in areas like Asia and counter back(0%)
- ③ The division of global economy into two parts; U.S. led digital world and its Chinese-dominated supply chain(47.6%)
- ④ Decoupling strengthened(42.9%)

14. What are the post-Covid19 policy tasks for fostering business environment? (Choose up to 2 options)

- ① Restore free trade, through re-establishing international trade rules such as WTO normalization(42.1%)
- ② Corporate tax reduction and deregulation(13.2%)
- ③ Secure fiscal stability(28.9%)
- ④ Reduce financial market instability caused by massive liquidity injection and credit extension(15.8%)

[Supplement Question]

Q1. Should we forward with postponed international events (ex. Tokyo Olympics) this year?

- ① Yes, we need to recover from economic damage and take back ordinary lives(68.4%)
- ② No, international gatherings still put us in danger of second/third waves of Covid19(31.6%)

Q2. What was the most unexpected thing revealed by Covid19? (Choose up to 2 options)

- ① Surprisingly many people are negative to receiving vaccination(35.5%)
- ② Surprisingly many people are insensitive to providing their personal data(6.5%)
- ③ Covid19 led to ousting some populist politicians(0%)
- ④ After Covid19 authoritarian governments came into power in some countries(16.1%)
- ⑤ China marked positive economic growth amidst Covid19(22.6%)
- ⑥ Others(19.3%)

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