

# **Environmental, Social and Corporate Governance (ESG) Diplomacy: The Time Has Come for a Corporate and Financial Social Justice Great Reset**

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**ABSTRACT:** The external shock of the novel Coronavirus SARS-CoV-2 has profound impacts around the world for this generation and the following. Although accounting for the most drastic societal shift in modern history, the Coronavirus pandemic also holds the potential of a Great Reset. This paper addresses three trends that have become prevalent in the wake of the Coronavirus pandemic: (1) A rising inequality experienced has led to demands for Corporate Social Justice, namely the corporate engagement in social justice initiatives and action. (2) The finance world has had opportunities to diversify and exchange COVID-struck industries for COVID-profiting market segments and therefore a rising financial market performance versus real economy budget constraint gap has arisen. (3) Governments around the world are pegging economic COVID-19 rescue and recovery aid to pursue noble goals – such as climate change abatement and a transitioning to renewable energy in the United States Green New Deal and the European Green Deal and the European Sustainable Finance Taxonomy. These trends point at the integration of environmental, social and corporate governance in the corporate sector. The aftermath of the crisis is now a time for a great system reset to integrate environmental, social and corporate governance in the corporate and finance sectors. Future economic policy research may be inspired by legal expertise on disparate impact. With respect for current trends of citizen scientists and science diplomacy, public policy work may embrace environmental, social and corporate governance whole-roundedly. While natural behavioral laws were guiding anchors to address inequality during a turbulent time of the pandemic, more rational behavioral insights could nudge people into more equitable growth strategies in a recovering world.

**KEYWORDS:** Change management, Corporate Social Justice, Coronavirus, Corporate sector, COVID-19, Disparate impact, Environmental, European Green Deal, Social and Corporate Governance (ESG), Equitable Growth, Equality, Equity, Finance, Great reset, Green New Deal, Law and economics, Pandemic, Public policy, Recovery

## **Introduction**

The novel Coronavirus SARS-CoV-2 that first emerged in 2019 accounts for the most unexpected globally-widespread external shock to modern humankind. COVID-19 changed behavioral patterns around the world dramatically and will have a lasting impact on society (Baldwin & Weder di Mauro 2020). By now, over 200 million recorded infections have caused over four million documented deaths in over 220 countries and territories around the globe (Coronavirus Worldometer). According to estimates, the actual number of infections is a multiple of around 4 to 5 of the reported and recorded case numbers. Early scientific estimates predicted that about 80% of the world population would get infected with the virus in densely populated areas in one form or another at a point in their life (BBC News March 2, 2020). With the initial virus being replaced by different variants, epidemiologists increasingly believe that every human being will have some touchpoint with COVID at a certain point in their lives (Zhang 2021).

From the history of humankind and the knowledge about previous diseases we can draw the inference that crises and external shocks have always been turning points and ultimate spring

feathers of lasting change (EcoWellness Group 2020, 2021; Schmelzing 2020). This paper argues that COVID-19 has the potential to change lasting living conditions as for predictive and speculative trends: Rising inequality, especially between the finance world and the real economy, have heightened demands for social justice in society. In light of global warming, social justice pledges and rising inequality, governments around the world seize the opportunity to peg historically-unprecedented large rescue and recovery aid to alleviate climate change and enact a more equal opportunity environment (Puaschunder 2020, 2021). In our post-pandemic world, the time has come for a new Renaissance that integrates environmental, social and corporate governance in the corporate sector and the finance world. These endeavors are prospected to become future soft diplomacy skills and sources of wealth of nations. Addressing to these concerns and outlining a balanced economic, social and environmental aspiration in diplomacy are tomorrow's essential strategic assets.

## **Inequality**

The Union Bank of Switzerland (UBS) points out that the largest economic gap between world economies in at least 40 years opened up in the aftermath of the COVID outbreak (The Economist 2020). Inequality is not only rising in terms of the quantitative output gap. Already now it has also become apparent that the COVID-19 crisis accelerates already prevalent inequality (Puaschunder, Gelter & Sharma 2020). The external shock caused by COVID-19 clearly heightened economic disparity between nations, industries and societal groups that often have already existed prior to the crisis, but are now more accentuated – for instance, such as in access to corruption-free quality healthcare, subsidized preventive medicine and healthy nutrition but also in terms of access to digitalization benefits within society and around the globe (Puaschunder 2018, 2019a, b; Puaschunder & Beerbaum 2020).

The COVID-19 crisis turns out to be a crisis of rising inequality. Some features of inequality that persisted prior to the outbreak of the novel Coronavirus were exacerbated in the wake of the crisis, such as, for instance, access to affordable quality healthcare inequality around the world or income inequality within Western society. Other inequality patterns that were not so obvious became accentuated by COVID-19 to a point that inequality became apparent to the broader public – for example, we saw rising inequality in the finance world versus real economy gap but also disparate effects of inflation and a low interest rate regime are currently becoming more and more obvious in an analysis of socio-psychological propensities determined by industry classes.

While COVID-19 created significant health and security risks as well as economic costs, the pandemic also brought about unanticipated opportunities for specific market segments (Puaschunder 2020). Some industries actually profited economically from the pandemic due to a heightened demand – for instance hygiene producers, medical care facilities, pharmaceuticals (including developers of vaccines) and medical supply chain providers, as well the medical professions curing widespread COVID symptoms and chronic diseases arising from long-haul COVID (Lerner 2020; Agrawal et al. 2020; McKinsey & Co 2020; World Economic Forum 2020; Kumar & Haydon 2020; Dodd 2020; Aravanis 2020; Arora 2020).

During the COVID-19 downturn, financial markets actually performed relatively well in comparison to the real economy. The reason for this widening finance-real economy gap is in part due to the finance world seizing opportunities to benefit from COVID, while the real economy experienced a liquidity crunch induced by lockdowns and halted consumption opportunities triggering waves of private bankruptcies in small and medium enterprises. This created liquidity bottlenecks for smaller entities, including private households.

While the real economy faced economic constraints, the clear distinction between COVID-19 profit and loss industries made it possible for today's highly flexible financial world to disinvest from weakened market segments – such as oil, public transport and aviation, face-

to-face service sectors such as international hospitality and gastronomy – and instead invest in better performing industries – such as pharmaceutical companies and emergency medical devices for healthcare, digital technologies, fintech, artificial intelligence and big data analytics industries, online retail, automotive and interior design industries (Baldwin & di Mauro 2020).

The clear difference to previous financial market system-inherently caused recessions – such as the 2008/09 World Financial Recession that mainly stemmed from turmoil in the finance sector and banking liquidity constraints – is that the shock to the economy caused by COVID-19 soon reverted to an overly rapid recovery of financial markets, funds and investment banks. For instance, the Financial Times Stock Exchange Index, Dow Jones Industrial Average, and Nikkei plummeted in the first quarter of 2020 drastically. At the same time, Deutsche Bank recorded rising earnings after the onset of Coronavirus crisis in Europe, with its investment bank branch seeing rising earnings of 43% or 2.4 billion euros in the third quarter of 2020 (Smith 2020). The S&P 500 recovered 50% of its pre-COVID value within the first three months after the crisis, regained pre-pandemic highs by June 2020 and reached an all-time high by August 2020 (Ycharts 2021). New and alternative finance opportunities – such as cryptocurrencies and crowdfunding – allowed investors to further benefit from changing financial markets and consumer sentiments.

From historical examples, such as the great plague of the 14<sup>th</sup> century in Europe that caused about one third of the population to cease, we know that pandemics can become essential turning points and phases of human advancement after all (Piper 2020).

### **Economic rescue and recovery pegged to social causes**

Throughout the history of humankind, very many different plagues and crises throughout the world have heralded betterment in the overall grand theme of developments that were adopted. The COVID-19 pandemic holds opportunities for a reset to embark on a better, more just and equal world. The way we lived, worked and structured our days has changed dramatically since the outbreak of the crisis (Puaschunder 2020c). In record speed the world has seen drastic changes implemented in the healthcare, finance and economics sectors. In the aggregate, the modes of operation of corporations, governments and governance were challenged and redefined throughout the crisis as we go along with the recovery. Unprecedented policy shifts coupled with extraordinarily rescue and recovery packages sprouted throughout the world. In most cases these aids are pegged to noble causes and the wish to make the world a better place for this generation and the following. While it is still too early to tell whether the efforts in the aftermath of the crisis will become established and fruitful transitions to a better state, already now it is apparent is that the rescue and recovery help offers a once-in-a-lifetime generational shift and a potential gateway to a new era.

What will it take for the COVID-19 crisis to be remembered by historians as the beginning of a golden age or a new renaissance? Learning from the examples of previous pandemics, we can say that strong governmental support of productive causes has a history of transferring society to higher social welfare levels. The combination of economic stimulus in large scale production and consumption coupled with educational and moral grounds appears to foster an extraordinarily vital societal development. Building growth on economic capital enhanced with human capital and strengthening the social glue is key in making something good out of a devastating crisis.

Governments' role during the COVID pandemic can become to be the great equalizer and inequality alleviation via reset funding. Governments all over the world can advocate for a sustainable finance world and equally accessible economic growth benefits. Governmental leadership can bring back the financial world in the service of improving and stabilizing the real economy in a stricter separation between investment and consumer banks, which already began in the course of the regulations following the 2008/09 recession.

In the wake of ambitious bailout and recovery plans, the obvious and unnoticed disparate impact facets of economic fallouts to a common crisis should be considered when choosing capital transfer targets. COVID-19 rescue and recovery aid echoes all these contemporary concerns in currently being concurrently rolled out and/or pegged to green economy efforts and social justice pledges. This is foremost the case in the United States with the U.S. President Biden administration fostering the Green New Deal (GND) but also the European Union Commission sponsoring the European Green Deal and a Sustainable Finance Taxonomy (Puaschunder 2021). These ambitious acts and plans account for the most vibrant and large-scale developments in our lifetime if considering the massive amount of funds involved but also the widespread impact energy transition will have (Alpert 2021).

The GND is a governmental strategy to strengthen the United States economy and foster inclusive growth (Puaschunder 2021). The GND is targeted at sharing economic growth benefits more equally within society. How to align economic interest with justice and fairness notions is the question of our times when considering the massive challenges faced in terms of environmental challenges, healthcare demands and social justice pledges. Ethical imperatives and equity mandates lead the economic rationale behind redistribution in the GND as social peace, health and favorable environmental conditions are prerequisites for productivity. The GND offers hope in making the world and society but also overlapping generations more equitable and thus to bestow peace within society, around the world and over time.

### **ESG diplomacy**

We are entering the age of corporate social justice. In the wake of the rising social justice movement, social justice plays a crucial role in pushing for societal change. The outperformance in social justice striving is the excellence of our times (Puaschunder forthcoming). With the Green New Deal and the European Green Deal being pegged to noble causes, such as the greening of the economy and social justice, tomorrow's ethics of inclusion will likely feature a comparative approach to understand the most contemporary responsibility challenges of our time (Puaschunder 2021). In a highly dynamic social transition, virtues of fairness and social justice should be analyzed from an ethics perspective in our post-pandemic era. Future science and diplomacy efforts should focus on law and economics developments but also with a practical ethical dilemma solving aspect arising in healthcare, economics and finance, education, digitalization and the environment in order to envision a transition to a more inclusive society (Puaschunder forthcoming).

In the healthcare domain, diplomacy could feature the equal access to medical care pledge in innovations such as telemedicine and artificial intelligence, robotics and big data insights (Puaschunder & Beerbaum 2020).

Economics and finance will cover inequality alleviation with particular attention to the finance world and real economy performance gap rising in the post-COVID-19 era featuring unprecedented levels of inflation and low interest rate regimes.

Educational social transfer hubs with attention to online opportunities will be portrayed as a gateway of social justice transformation in the United States that also account for the most promising international development advancement of our times.

Our workplace revolution in a truly digitalized economy should be thematized but also novel inequalities and ethical dilemmas arising from digitalization. Health and well-being underlying human workforce productivity will be introduced as a hidden driver of economic growth in the eye of a global pandemic risk.

In line with the novel societal transition as envisioned by the Green New Deal and European Green Deal including a Sustainable Finance Taxonomy, criteria to structure goals in society should feature the known three dimensions of inclusivity – the economic, social and environmental aspects.

Overall, in a more and more globally connected world, these pillars of social justice and inclusiveness should guide diplomacy and serve as an homage for ethics of inclusion. Diplomacy under the guidance of economic, social and environmental goals in harmony with social justice pledges can become the spring feather of equality and social justice heralding in our post-pandemic Renaissance. Diplomacy vigilant of these emerging trends will likely become future assets of nations that determine wealth of nations for this generation and the following. With respect for current trends of citizen scientists and science diplomacy, public policy work may embrace environmental, social and corporate governance whole-roundedly. While natural behavioral laws were guiding anchors to address inequality during a turbulent time of the pandemic, more rational behavioral insights could nudge people into more equitable growth strategies in a recovering world (Puaschunder 2020a).

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