

Center for Strategic and International Studies

TRANSCRIPT
The Reopening

**Carlyle Group Co-Chief Executive Officer Kewsong
Lee on the Power of Leadership**

RECORDING DATE
June 12, 2020

SPEAKERS
Kewsong Lee
Co-CEO, Carlyle Group

HOST
Scott Miller
Senior Adviser, Abshire-Inamori Leadership Academy, CSIS

Andrew Schwartz
Chief Communications Officer, CSIS

Transcript by Rev.com

Andrew Schwartz: You're listening to The Reopening, a podcast that asks, how will America work through the COVID-19 pandemic, how will we innovate and how will it change our global economy? Each week, we invite top business leaders to share their insights on the road to economic revival here at home and around the world.

Scott Miller: Today, our guest is Kewsong Lee, Co-chief Executive of the Carlyle Group. A longtime member of Carlyle's executive management group, Kewsong also serves on the board of the US-China Business Council. We'll hear his unique perspective on the global economy. We'll also discuss how leaders are improvising and re-imagining business for a changed reality, the challenges of sustaining a strong corporate culture and the role of ingenuity and adaptation in turbulent times.

Andrew Schwartz: I'm Andrew Schwartz.

Scott Miller: And I'm Scott Miller.

Andrew Schwartz: And this is The Reopening.

Kewsong Lee, thank you so much for joining us today. There's a lot of people out there that want to hear from you, and we're really lucky to have you here today. The first question I want to ask you is, as CEO of the Carlyle Group, your organization is in every country, you're involved in so many industries, what are you seeing out there, and what are CEOs thinking about as they're imagining, restarting and getting back into the office?

Kewsong Lee: Sure. Andrew and Scott, thank you for having me. I think it's fair to say the restarting, the reopening, it's not monolithic. We're seeing different regions in different parts of the world appoint different strategies, and the recoveries are going to look different. If you start in China, for instance, there's definitely been a V-shaped bounce back without a doubt. It may be that China's economy does not even go into recession this year when all is said and done. We'll see. What we are noticing is that the extent of the bounce back is such that they're still operating probably at like a 90% level pre-COVID, and they've kind of petered out. Now, whether or not that can push through and keep going, will be determined the second half of the year, but clearly, they're on their front step. Travel is starting to get going, the industrial sectors is going, the consumer is out. Traffic is lower, but e-commerce is making up for that. But it's clearly more V-shaped than not.

Europe has surprised us in that the recovery looks like the bounce back is a bit stronger than we would have thought. We're attributing that basically to the policy response in Europe, which was in large part, designed to keep employment up. They seem to have gotten to a place where, as they restart in different countries, they may be starting from a better place than the United States. Let me now pivot to the US. Clearly, we were not as prepared as we should have been in hindsight, clearly this has really rocked us. I personally do not imagine a V-shape recovery. I do think there is a bounce back, but I think for a lot of reasons, the recovery of the United States is

going to go in fits and starts and could be a little bit tougher than we imagine. We can get into that in a moment if you want. So, it's different in different places.

Every CEO that I talk to is trying to reimagine, what should their business really look like on the other side of COVID-19? Many are trying to reinvent how things get done, many of them are trying to understand how do we incorporate technology and the new ways to work from home in their workflow and processes. Many of them are trying to reimagine supply chains in light of what has happened, and many are trying to take into account what we're seeing geopolitically around the world with respect to relationships as they design future strategy and where they want to take their company. So, lots of food for thought, but our platform at Carlyle is terrific in a time like this, because it enables us to see, all around the world, different countries, different regions, different industries, different types of businesses, and it's very different what we're seeing in different parts of the world.

Andrew Schwartz: I want to bring my colleagues, Scott Miller in.

Scott Miller: Let me ask you two specific questions. One on China, what you described was a very solid recovery of the domestic economy, which is quite encouraging, and that's great news. However, China is also an export led economy and recovery in the export sector will depend to a great extent on demand from the import markets. And so, I'd like to get your thoughts on that. Second on the United States, because of our federal system, because we're America, we tend to get into these things slow, and then we have 50 different recovery plans all going at different paces. If you could describe that and whether you think that's bad, good, or what you'd recommend in the future for the US getting its act together, then that would help a lot.

Kewsong Lee: With respect to China, China is so important to the supply chains, especially on the industrial side around the world, obviously. But what people don't appreciate is China is still much more domestically driven than you'd think. About high 70's, close to 80% of their economy is still driven in some shape or form, more domestically than not. And so, yes, while they wait for the rest of the world to recover, and it could impact them, it may not be as big a percentage to their output nationally, as you'd think. So, they still have a lot of forces under their control in terms of just domestic. Now, the other important thing, though, Scott is, the US and in Europe, there's been massive policy response, especially on the fiscal side. If you think about China, they have a lot of ammunition to go. They have virtually not even started with fiscal stimulus of any kind. And so, we see their V-shape recovery as having been much more organic, and they now have all the resources of fiscal stimulus to keep things going or to accelerate it at their choosing.

Whereas with respect to Europe and the US, in large part, a lot of stimulus has already occurred just to keep folks in jobs or just to sustain businesses as a bridge to get the economy going. So, a lot of regions are starting from different places, and I would just point out, China's not as export oriented as

you might think, and they still have a lot of policy response left in terms of continuing. With respect to the United States recovery, I think the way you phrased it is really good. Recovery I think could be a challenge in the United States for a bunch of reasons. First, as you rightly point out, every state doing it a little bit differently, so there is an enormous consistency and there are lots of different standards among the different states. But also, there are issues with respect to data. What I mean by that is in the future, all good mitigation plans and dealing with these types of healthcare crises in the future will require a very good contact tracing and contact tracing ultimately is not only a logistical effort, but it's also an effort which relies heavily on the sharing of data. And trying to figure out what should be private and what shouldn't be, what is the government allowed to do and share among states, et cetera, is not quite yet really worked out. Whereas in other parts of the world, especially in the far East, it's much more monolithic in nature, they can do what they want, and as a result, it's just easier to do the contact tracing for them over there. I would say the privacy issues and data are going to be an issue here in the states moving forward. You then have liability issues here. There's a lot of concern on the parts of business to understand what type of liability they have as they try to figure out how to bring employees back and that's not even starting to imagine in certain cities like New York city, they're just pure physical logistical constraints to restarting. Like, how do you get people into work if they rely on mass transit? How do you get them through lobbies through turnstiles, into elevators if it's a very vertical work environment relying on density? To jam 10,000 employees and get them to their desks in a big tower and get them there between the hours of 7:30 – 9:00 AM in a safe way, that's just mathematically difficult if not unsolvable. So, these are all the different types of issues that we're going to be wrestling with. Clearly, we restarted, and it's going to be great to see if this progress can continue, but I do think there are more ... in certain cities, certain real stumbling blocks and more medium, longer term, real issues that as a nation, we're going to have to figure out how to tackle, especially as it relates to data privacy, liability issues, et cetera.

Andrew Schwartz: Are there any real opportunities that you're seeing as you're talking to your people under management, CEO's that you're working with? What are some of the opportunities you're seeing as people are reorganizing and thinking about how to do some of these complex things?

Kewsong Lee: Sure. Look, the obvious one obviously is application of technology with respect to changing work processes. When you're working from home and working remotely, large numbers of CEOs are thinking, I could really increase productivity, which is of course the flip side of saying I'm increasing efficiency with respect to my workforce. Do I need all those employees to keep doing what they used to be doing when there may be a new way to do it? With respect to industry sectors, I think about it in terms of the letter C. Anything to do with collaboration, cashless, e-commerce, the cloud. These are all great sectors that clearly have shown to, in some cases, accelerate their growth that are going to be opportunities for folks as they're trying to build their businesses.

Scott Miller: That makes a lot of sense to think about the contactless, and collaboration tools being in high demand. Suddenly clearly there are winners in this; you look at Amazon, you look at the delivery services, there are firms that came out ahead. There's a second sort of tier of firms that are adapting, and improvising, and trying to succeed. I've seen this sort of a third tier of firms who were trying to muddle through, and it looks like it's not going to be an option. I'd put Hertz and a bricks and mortar retailing, generally, these kinds of things. Can you talk about what the future looks like for those in the second and third tier?

Kewsong Lee: The one great thing about America and capitalism is, our folks adapt, and so who knows how people adapt and come up with great new ways to deal with adversity in order to propel their businesses. But I would make the following observation that in many ways, the COVID-19 experience, by the way, it's by no means over yet, right? We should not be declaring victory, there's still a lot more that unknown than known. I would suggest that what the virus though is doing, is it's putting a spotlight and showing it in a very accelerated fashion, who the winners are and who the losers might be. And it's making it very stark, and businesses that their business models may have taken five, 10 years to develop, are doing it in six months to a year, because of the spotlight that's being put on what is required to succeed, and what are the business models that are well positioned to succeed? And similarly, I think with respect to the have-nots, you're seeing lots of businesses where all of a sudden people are saying, "Oh my gosh, this business will just not work in the new world". And so it's funny how investors can quickly adapt, and how people quickly adapt to your point about muddling through. I see people in two camps. There are those who are experiencing this environment, they're trying to what I would say, be resilient, survive, and then return. And then there are a group of folks who are saying, "You know what, it's time to coexist and adapt". And I think the latter group, the mentality of saying, "How do we coexist with this, adapt, and keep winning?" is the group that is being much more forward thinking and aggressive about changing their businesses, or thinking of new ways to do things which are going to fundamentally step function their business to a new place. Whereas the former group, "Let me just survive, and then we return" you can tell just by the phraseology, they're much more willing, or needing to cling to how things have always been. And it'll be interesting to see how those two camps continue their thinking as we get through this crisis.

Andrew Schwartz: So, how does an investment firm like Carlyle, what makes you all competent at analyzing and managing risk in assets in the current economic environment? It seems like an impossible task.

Kewsong Lee: Well, it will only know in hindsight. In the end, Andrew, I think it comes down to some very simple things, and it's not really about the math or the numbers. It's about having great people. It's about connecting them all together so that they have as many viewpoints and a diversity of experiences in the firm being all brought together, so that we can make great judgments. We're in the judgment business, we're in the decision

making business, and we need the best available information, and on the ground perspectives to inform us on how to make those decisions. So if you think about it, of course you need great people. Of course, you need industry experts. Of course you need connectivity.

At the end of the day, what that means is: you need a great culture. You need a culture at a firm that wants to share that wants to solicit diversity of background, experience and insights from all parts of the world. You want a culture that is multicultural in perspective, not international, not global; it's got to be multicultural. And you want a firm whose culture wants there to be real active conductivity in a world which is increasingly decoupling and separating. And so if you can bring all that together, and I know it's kind of this loosey goosey word, that all CEOs throw out and use, but there's nothing at the end of the day, more important than that culture, and firms with strong cultures will manage these crises incredibly well because by definition, they have employees that their value system wants, promotes teamwork, and wants to share views, and wants to get help. And to me, that's what's going to enable us, Andrew, to make the right judgment calls as we're navigating this incredibly complex environment.

Andrew Schwartz: To put this in context; you have \$217 billion under management, and you've got over 1700 employees who are involved in that management in one way or another. So this is a culture that has a lot riding on it, and you got a lot of people to put into that culture. How do you do it?

Kewsong Lee: Yeah, well, it takes a ton of experience. Having a long-term perspective, which we have, cause that's what our business is all about. And having an orientation that, yes, we're in the financial services business, we're in the asset management business, but we're really looking to find the best management partners and CEO's, and our major mindset is: how do we build better companies together? How do we make things better at our portfolio companies? And if you have a long-term mindset, and you have that impact driven approach of saying, "How do we make things better?" The returns will follow, right? And so at Carlyle, from its inception, we've always thought about, how do we find the best management teams find the greatest companies, and then partner together with a long term perspective to build and to make these companies better? If we can do that, good things occur.

What I'm concerned about is the remote environment does run the risk that great companies, their cultures, can get you eroded because using video technology is not conducive in the end, necessarily, to promoting culture. It's very hard to onboard employees. You have issues with inclusivity in a remote environment. The whole apprenticeship model is very difficult to execute when we're all separated.

There are a lots of efficiency and productivity benefits, and video technology, it sustains us, we can keep the business going. I just don't know if it's truly sustainable with respect to our culture, because I do fear cultures are starting to erode and decay, because you just can't have the connectivity to build relationships, understand nuances and walk the walk, and talk the talk,

so to speak, with respect to culture, which doesn't get built by mandate; you don't communicate culture through a video platform, you communicate culture by doing it day in and day out with all your employees. And so, I know this is a bit of a tangent, but to the extent that we are all re-imagining the future of the work environment, no doubt video platforms are going to be an essential part of it, but I think great CEOs are going to have to think through the ramifications of that, and appreciate that video platforms are a compliment too, but not as substitute for, real old fashioned interaction because of the impact on culture.

Scott Miller: Yeah. Okay, to my mind, this is not a tangent at all, because we are social creatures. And throughout our history, throughout evolution, cultures have been built by human interaction. And we're at a very unique point where, and obviously Carlyle is known for a very strong corporate culture, but all elements of culture come from human interaction, and the space we're in now is a very different kind of interaction. What you thought was a tangent, I think there's one of the central challenges of management across the board in this environment. I presume that any government leader, any elected official who's sentient, is asking you for advice.

Kewsong Lee: Well, it's interesting; there are lots of recovery task forces that have been formed at whole various levels. States, nationally, et cetera. And I'm involved in some with some of them and it's going to be very interesting to see how the different states incorporate the advice that they're getting, because the picture that's presented locally is different than nationally, and in different cities and different states and different regions, the fact pattern could be different. And if there's one thing that I think all of us have to appreciate is the impact of COVID is very different based on your perspective and where you sit and where you are. If you're in New York City, it's a very different story than perhaps in other parts of the country, and folks are going to have to realize that.

I can tell you from a New York City experience, the ecosystem of New York City is surely taking a hit. There's no other way around it. The amount of international travel that comes to New York, the cultural institutions, the performing arts, all the restaurants, the density of the city, the way folks get to the city for work. Without a doubt, that ecosystem has taken a bit of a hit. They've got unbelievably smart leaders, all involved trying to help out. I have no doubt New York City will be back, and will be back in force, but it's not going to be with a snap of the fingers. It's going to take some real effort and time and concerted multi-lateral teamwork amongst all the different stakeholders within New York City to make it all happen.

Scott Miller: Well New York is more than just a financial center. It is a generator of ideas, it is a sort of a source of creativity for the whole country. So I'm encouraged that you foresee a comeback.

Kewsong Lee: Oh absolutely, and we have all the right folks who are working really hard. All the different constituents and stakeholders are all pitching in because, not out of self-interest, but just out of the fact that we're all proud of the city

and know how vibrant of a community it is, and we all want it back. The sooner the better. It's just that it's got unique challenges, so we're all going to have to lean in and do our share. It's going to take some sacrifice. Like I said, we need to make sure that all voices are heard as we try to get that ecosystem going again.

Andrew Schwartz: Kew, I want to ask you something. The other day we were talking about, and this is a little bit in the weeds, but I think it's really important. And it speaks to the thing you were talking about before about video culture. You mentioned that in this environment where we're all virtual, it's going to be really hard to integrate new employees. To onboard new employees. And it's also going to be hard for people that might have a hard time speaking up in meetings to speak up in meetings. Tell me a little bit about that, because I was fascinated by that. As someone who manages people and someone who has a relatively big staff, I started thinking about that a lot, and it wasn't something I thought about previously before our conversation. And I wonder if you could expand on that a little bit here.

Kewsong Lee: Sure, happy to. All of us are being affected. And let's just be honest, working remotely is wearing. It's tiring. It wears you down psychologically, and it's physically draining. Because when you're working in a place where your personal boundaries and your professional boundaries are all kind of confused, and what people don't realize is with video, you're actually working harder than you've ever worked before, because the setup time for meetings has gone away. You're not taking a cab to go to a different meeting, or you're not driving in a car or taking a plane ride somewhere. It's instantaneous. So I'm in Singapore at 7:00 AM. Then I beam over to London and then I can go to California. I can go around the world in a matter of a snap of a finger. And those meetings are very draining because you are constantly being looked at, and you need to be paying attention in these video meetings.

Andrew Schwartz: Yeah, you're on television.

Kewsong Lee: Exactly right.

Your question about onboarding, it's going to be a bit challenging if this continues, because when you have new employees start, there's no better way to get them acclimated to understanding who we are as a firm, what our values are, and start appreciating and understanding what the culture is because they're in training, you're sharing stories, they're going through sessions together and bonding, they're interacting with folks that we bring in to teach certain modules. It's very difficult to do that in a remote way. You can't take them to the restaurant. You can't enjoy a night out together. You can't form small little groups and have them go off and really bond and understand the history of the firm and share the mythology that often makes up a part of your culture. Right, so all of those things are now very difficult to execute against, which is why I made the comments earlier that this remote environment is probably, over the long term, damaging to corporate culture.

Andrew Schwartz: Scott.

Scott Miller: If I could shift gears. We have a great power rivalry going on, and it's affecting everybody's business. And I'd just be very interested in your thoughts on the US-China tensions and what you foresee in that relationship.

Kewsong Lee: Yeah, it's troubling. We thought the phase one agreement would put an end to the tensions for a while, as both sides now worked to make phase one real and then hopefully move on to phase two. Clearly there is a bit of a reset happening right now because of the virus. I think it is exceptionally important, for real reasons as well as symbolic, that we keep supporting the phase one agreements that are in place. But no doubt, you are seeing a continued shift and a slight, I would say, continued decoupling between the two countries. In my mind, over the long term this isn't great. It's the number one, number two economies in the world, and we are much better off with everyone working together and having healthy relationships than not. That's just the bottom line.

If you think about the internet economy, broadly speaking, you have on one axis, Alibaba, Tencent, Ido. And another one, Amazon, Google, Facebook. They're two very different ecosystems. Different vendors, supply chains, different technology. And those two ecosystems, in my mind, aren't ever really going to be interacting into one quote unquote, "Global system." They're going to stay separate and they're thriving within each of their axes. Two very different ecosystems. So in many respects in certain industries we've already decoupled. And whether or not other industries follow in this way, for instance healthcare, is a big open question.

Over time, I think both ecosystems, the Chinese and the US, we're going to have to figure out what the right way is to constructively engage. And it's going to have to be done through mutual respect and through a real understanding that constructive engagement, by the way, with fair standards, with a basis where international standards of fairness are being complied with. That doesn't mean we shouldn't be tough. We should be tough in order to make sure that our rights are being protected, and similarly on their side. But over time, we're much better off if these ecosystems, out of respect, can constructively engage on basis of fair international market-based standards. And to me that's where we have to eventually get to. The politics of the day are going to make that really tough in the short term. So, to try to predict that, I think, is very difficult. But I would say two last things on this, which is, I do think the phase one deal being preserved and complied with is exceptionally important, if anything, for symbolic reasons. And two, I think we have to be careful with this narrative around supply chains and trying to bring everything to Europe or to home and to try to disassemble supply chains. That is much harder to do than people think. And yes, all corporations need to have resiliency in their supply chain, but resiliency does not mean necessarily keep it monolithically in one country.

So you can build resilient supply chains, but still appreciate that the supply chains need to be very global in nature to enable American companies to be competitive in the global marketplace.

Scott Miller: Yeah. Of course at the firm level, if you have multiple suppliers and multiple markets versus a sole supplier in your home market, you have better resilience in the former than the latter. So, I hope reason will prevail, but this has been, I think many, most of the economists both in China and the United States would agree with you, that an adult relationship between the two based on fairness would be mutually beneficial.

We expect a lot of things to change. But as you look at the business overall, what trends are changing and which ones will be very much the same when we get on the other side?

Kewsong Lee: Yes, Scott, that's, that's a great question. If I could ask everyone listening to this, just to close their eyes and go back to a pre-COVID environment, so let's say fall of last year. And if you close your eyes and you thought about what was going on at the time? Well, it would be commentary on lower than ideal global growth. Interest rates were low. You'd hear commentary on polarization and nationalism and populism. You'd hear commentary on U.S.-China tensions and the threat of decoupling. You'd be hearing about folks saying inflation is gone, there is no inflation. If anything, folks were worried about disinflation. And energy was cheap. By the way, you're also hearing commentary about how technology was disrupting businesses and how we were going to have issues with the haves and the have nots and skilled labor versus unskilled labor and what technology was doing with respect to employment moving forward. Now, if I ask you to open your eyes and it's now post-COVID, well, what's going on? Well, you're going to have low global growth. You're going to have really low interest rates for a long period of time. You have disinflation. You have polarization.

You have continued disruption by technology. If anything, it's accelerated, and you're seeing continued nationalism, populism, and decoupling between U.S. and China. So in many respects Scott, what's changed, it's not necessarily that things have changed, but in many ways, these trends are being accelerated by COVID-19. And so, as we look at the bigger picture, longer term, I don't think things have changed so much as a lot of these trends have started to accelerate and become much more apparent. And that's kind of the environment that we're imagining moving forward.

Andrew Schwartz: Kew I ask you one final question. What gives you hope going forward? What are you looking forward to?

Kewsong Lee: I'm looking forward to going out to a restaurant with my friends and having a great meal and a great bottle of wine. Look, what gives me hope is ultimately over the long term, it's not the resiliency, but the incredible ability for us to adapt. The innovativeness of companies and the ability for us to incorporate new technologies and to change the way we do things. That's the essence of our system and our capitalism. It's just so vibrant. And I'm

lucky, I get to see that with a lot of new, new emerging companies and new investments and new opportunities that come to us all the time. And that gives me, that gives me huge hope. I think we have unbelievably positioned universities and academic institutions in this country. And the research that's done there is a huge strength of ours.

If you think about the backbone of our economy with respect to our financial services systems and our markets, they're incredibly vibrant and world-class. And so, a lot of people talk about how, is their system better than our system. And, uh-oh, is this the demise of American capitalism? And I actually think, we're going through a period where you could see another spurt of growth because of the environment causing us to adapt, causing us to innovate. And quite frankly, as I said before, CEO's are re-imagining their businesses right now and trying to figure out how to use this hard reset that we've experienced with COVID-19 to invest in and incorporate a lot of this into how they want to drive their businesses moving forward.

So I think there's a lot of reason for hope and optimism. No doubt there's a lot of uncertainty, but it's what makes America great is we've always figured out how to navigate through this type of stuff.

Scott Miller: Well Kewsong, we're so delighted you made time to come on this program. I feel like if I could talk to you once a month, I'd be a lot smarter. So we do appreciate the time you spent and wish you all the best.

Andrew Schwartz: And we promise that as soon as restaurants open in New York, a gift certificate is coming your way for a great bottle of wine.

Kewsong Lee: Well, Andrew and Scott, thank you so much. Thanks for having me and appreciate all the good work CSIS does. Thank you.

Andrew Schwartz: Thanks for listening to the reopening. If you liked this episode, please write us a review and subscribe wherever you find your podcasts. You can also find other podcasts from the Center for Strategic and International Studies at csis.org/podcasts.