Lead Director Peer Exchange

Geopolitical hotspots on the board agenda: A discussion with Eurasia Group

As boards help their companies navigate an increasingly complex and dynamic geopolitical environment, understanding broader structural shifts in the landscape is essential. During a recent peer exchange, Fortune 100 board leaders joined professionals from KPMG LLP and Eurasia Group to discuss the implications for companies operating in a world that is geopolitically fragmented.

Paul Knopp, chair and CEO of KPMG LLP, was joined by John Rodi, leader of the KPMG Board Leadership Center, and Christine Hilt, a senior analyst with Eurasia Group's Global Macro-Geopolitics practice.

Key takeaways

- Understanding the geopolitical environment and its impact on the business is top of mind in the boardroom.
- Increasing international multipolarity is creating systemic instability.
- Board leaders noted that many companies are exploring diversification or redundancies in their supply chains.

"Business leaders are navigating an era of compound volatility—the combination of disruptive risks to growth and structural changes to the economy—that requires agility, strategic thinking and bold, decisive action," said Knopp.

In sharing her views on current geopolitical flashpoints, Hilt said, "Current instability suggests that the international order has passed an inflection point. Global politics are more divided, contested, and volatile than at any point since the Cold War."

"Globalization is entering a new phase and is changing to account for the new realities that we're facing," Hilt added. "The idea that efficiency and connection is the be all, end all is no longer the case."

The impact of geopolitics will vary based on a company's specifics, including industry and geography, but each board has a role to play in assessing how management is monitoring and managing the key geopolitical risks impacting the strategy and the business.

The discussion focused on three of the major geopolitical factors at play today.

Israel-Hamas War

Boards are carefully monitoring the impact of the most recent conflict in the Middle East. "The ongoing ground war is likely to take months, not weeks, with a heavy civilian impact," said Hilt. As efforts focus on keeping the war from expanding to a regional conflict, Hilt noted the challenge for governments and coalitions of trying to address multiple geopolitical crises at a time.

Russia-Ukraine War

While the ongoing Russia-Ukraine war is "likely to go on for at least a few more years in some stalemate state," Hilt said the diversion of attention resulting from the Israel-Hamas war is a threat to continuing US support for Ukraine and makes it "a more politicized domestic issue." The upcoming US election is "going to weigh heavily on the future US response, particularly with the Israel-Hamas war putting additional downward pressure on the appetite for US support abroad."

US-China tensions

While “not a crisis” Hilt called intensifying US-China frictions the “most important geopolitical factor that could change the global trajectory going forward.” Technology is going to remain the key area of US-China competition for now; in the managed decline scenario, neither side wants a third international crisis and China’s president is focused on domestic struggles due to slowing economic growth, according to Hilt.

“While they matter, focusing on discrete events can be reactive,” said Rodi. “We encourage board members to challenge your management teams to look for those structural shifts and for that forward lens of how the world is changing and how that’s impacting your business. As part of board reporting summarizing the risks and how they impact the business, we also encourage a healthy discussion around resilience and how your companies can stay on the offensive, and remain competitive when and if a crisis occurs.”

Additional watchpoints

Hilt said the current systemic instability will accelerate other trends. Among them:

An increasingly independent Global South

Developing states including Brazil, India, Indonesia, Saudi Arabia, South Africa, and Turkey are “leveraging their growing economic heft and geopolitical sway” and pursuing hedging strategies to increase their influence.

Another lead director questioned whether “this is a more endemic issue and the US’s power on the global stage is waning?” In response, Hilt said, “There are powerful enough players now to pull decision-making in their direction. China is able to challenge the US on a lot of fronts and is providing a real alternative for a lot of countries on a diverse set of issues.” Hilt added that the US “is stretched quite thin … and in advance of an election year, the US public is losing their appetite for overseas intervention.” In addition, some countries can capitalize on their natural resources, primarily oil and critical minerals, to create new geopolitical opportunities and potentially benefit from increasing nearshoring and friend-shoring trends.

2024 Elections

Companies also need to keep an eye on the potential policy impacts of the outcomes of the January 2024 presidential election in Taiwan and the November 2024 US elections. Hilt noted that the Taiwan election outcome could impact Cross-Strait relations, increasing the potential for retaliatory measures from Beijing. In the US, a change in control of Congress could impact overseas aid and a potential Trump win could result in significant “policy lurches.”

Global trade

The potential impact of geopolitics on global trade patterns is top of mind for many of the board leaders on the call. For example, directors are paying attention to sanctions on Russian oil, although one director noted that, to date, the sanctions “are not necessarily having the expected impact.”

Another director observed, “I don’t see anything that’s really making a big difference in how we go about our normal affairs. For the moment, we’re not changing our strategy.”

Hilt said sanctions “are not a completely flexible tool for geopolitics, and for policy, you can institute and implement sanctions but enforcement … is a delicate balancing act.”

EU populism

One director wondered about the implications of populist movements in European Union member states, which have focused mostly on immigration, jobs and economic performance, and climate regulation. But Hilt said the impact is most immediate at a national level rather than a European-wide institutional level.

Supply chain redundancies

As companies consider how to de-risk their supply chains, Hilt observed that the expanding definition of national security to include economics and technology is encouraging redundancies. “We’re expecting a lot more of a ‘China plus,’ where companies have a non-China supply chain and keep a China supply chain that’s separate,” said Hilt. “We have started to see that quite a bit. Companies are starting to accept that … in order to do business with both, if that’s the choice,” redundancy is needed to avoid some of the decoupling and complications that may arise from a mixed supply chain.

One director observed, “There’s definitely much greater reluctance [from clients] to expand in China than there used to be. There’s a significant shift from Hong Kong to Singapore and India is playing a more significant role.” While the company has shifted the handling of payment flows, the director noted, “It’s not so simple to create two different systems for companies like ours that operate in an integrated way across borders, and thinking about that longer term is a challenge.”

Additional insights

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