Management

Where business and policy meet: Managing geopolitical tensions

by Simon J. Evenett

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Business leaders need to respond more proactively to geopolitical tensions, while policymakers need to rethink their approach, argues IMD's Simon Evenett.

Geopolitical tensions are causing businesses worldwide significant problems – and research from IMD suggests that they may have underestimated their scale. In **a new paper for the World Economic Forum**, IMD argues that business leaders and policymakers must now take decisive action.

Geopolitical tensions take different forms, but, as IMD points out, they all contribute toward the deterioration of global trading conditions. From full-blown conflicts, such as Russia's war with Ukraine, to complex rivalries, including the US's fractious relationship with China, problems have escalated in recent years. The crisis in Gaza – and the associated threat to shipping in the Red Sea that has arisen in recent months – is just the latest outbreak. Around 75% of corporate filings to the US Securities and Exchange Commission (SEC) in 2023 cited geopolitical factors driving risk assessment and business decisions.

How businesses can respond better to geopolitical tensions

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There are limits to how much business leaders can do in response to geopolitical situations. However, IMD argues it would be a mistake for businesses simply to accept the negative impacts of geopolitical rivalry. There is much more that corporate executives and board members can do to manage the complex dynamics in which they are caught up.

First, it's essential that management teams spend time considering what geopolitical tensions could mean for their businesses. Not only do current market conditions demand this, but the work done to explore these impacts itself has value. It will enable many companies to secure a granular understanding of what cross-border trade contributes to their business in terms of revenues and profit, but also as a means of managing cost, diversifying risk, and accelerating innovation.

> **"Geopolitics is all about leverage. We cannot make ourselves safer abroad unless we change our behavior at home."**

A valuable part of this exercise is increasing the business's understanding of the geopolitical dynamics that affect it – which rivalries and tensions are most significant, where the impacts are likely to be most keenly felt, and the likely future direction of travel. Business leaders and operational units alike will benefit from such increased understanding. Some companies have made tactical appointments to their boards, including former public officials, to enhance their access to insight. However, while commendable, this is unlikely to be enough.

Businesses must also consider how they will respond strategically to challenges arising from tensions. Siloed, functional responses will fall short because they will fail to consider the holistic effect that such tensions are likely to have across the business.

Government affairs units, for example, may provide valuable advice to the rest of the business, as well as a point of liaison with policymakers, but leaving such teams to manage the fall-out by themselves would be short-sighted. Many companies have established a strategy team close to the senior leadership to organize a cross-functional approach to mitigating geopolitical risk.

It's important to be positive and seek to identify opportunities as well as risks. Disruption in one geography or market may prompt businesses to explore alternative sources of revenue and growth – in new markets and under-served market segments, for example.

More optimistically minded business leaders recognize that even significant geopolitical

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Moreover, even where the focus is on risk rather than opportunity, there are steps businesses can take to protect themselves, intervening now to future-proof current and planned operations and investments. By **planning on a company-wide basis for plausible scenarios** – the re-election of Donald Trump, say, or a Chinese invasion of Taiwan – businesses can identify pre-emptive measures and their specific responses.

A related imperative is for businesses to be explicit about their risk appetite. This requires executives and directors to discuss the exposures they are prepared to accept in individual geographies, weighing opportunity against potential negative impact. Companies that engage meaningfully in such conversations will be in a much stronger position to decide where and how they want to reduce risk – and where they want to eliminate it entirely.

IMD also believes organizations are often stronger when acting with ecosystem partners. There will be times when businesses should act jointly – to push for de-escalation of particular tensions, say, or to advocate a reset of relations. National, regional, and pan-regional business associations can be powerful actors in encouraging governments to talk more positively to one another.

All businesses have a role in helping governments develop policy and strategy. Leaders should look for opportunities to engage early in policy formulation; in many cases, they may be better informed about conditions on the ground in particular markets and territories than government officials and have a stronger grasp of the likely repercussions of different policy approaches.

How policymakers should respond

For companies that have made considerable investments in overseas trade during an extended period of globalization, the negative impact of geopolitical rivalry will inevitably have serious consequences, impairing financial performance and even stranding assets. This threatens to undermine global economic growth – and, therefore, to damage the wealth and living standards of billions of people worldwide.

On this basis, and as conflict and rivalries intensify, IMD argues that governments and public policymakers now need to support businesses. While it may not be possible to de-escalate

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Spell out more clearly the links between geopolitical goals, de
and actions taken, and their rationales.

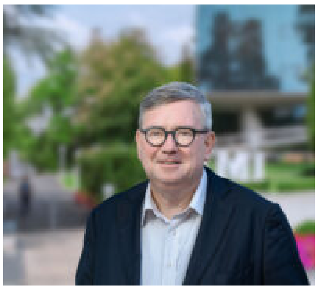
This will help private-sector players understand corporate practices and negotiate for change from a base of greate

Recalculating cost-benefit

In past years, globalization and cross-border trade have been seen as a source of unalloyed good. But policymakers have recently begun to question this thinking; they increasingly see the potential harm in allowing the free flow of data, investment, trade, and people.

In that sense, business and trade are themselves a potential source of geopolitical tension, as well as victims of broader rivalries. Governments and businesses need to work together, sharing information and perspectives so that both can gain a strategic advantage in negotiating the fallout of geopolitical tensions.

Authors



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Simon J. Evenett is Professor of Geopolitics and Strategy at IMD and a leading expert on trade, investment, and global business dynamics. With nearly 30 years of experience, he has advised executives and guided students in navigating significant shifts in the global economy. In 2023, he was appointed Co-Chair of the World Economic Forum's Global Future Council on Trade and Investment.

Evenett founded the St Gallen Endowment for Prosperity Through Trade, which oversees key initiatives like the Global Trade Alert and Digital Policy Alert. His research focuses on trade policy, geopolitical rivalry, and industrial policy, with over 250 publications. He has held academic positions at the University of St. Gallen, Oxford University, and Johns Hopkins University.