



# Geopolitical Risk Management

Why it matters, what is changing, and what we can do to manage risk

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# The Relevance of Geopolitics Today



FIGURE 1.1

“What is your outlook for the world over the next three years?”

■ Negative scenarios ■ Positive scenario



Source: World Economic Forum Global Risks Perception Survey 2021-2022

“Several shocks have hit a world economy already weakened by the pandemic: higher-than-expected inflation worldwide—especially in the United States and major European economies—triggering tighter financial conditions; a worse-than-anticipated slowdown in China, reflecting COVID-19 outbreaks and lockdowns; and further negative spillovers from the war in Ukraine.”

- IMF WEO, July 2022 -

The current volatile geopolitical environment is further exacerbating supply constraints, heightening cyber risks, introducing rapidly evolving sanctions and putting safety and humanity at the forefront of all decisions.

- PWC, Global Risk Survey 2022 -

More surprises, more risk, and less predictability!



# What is Changing?

## *Fragmentation and Distribution*



### **Fragmentation:**

- Fragmentation of technology standards
- Fragmentation of resource ownership
- Fragmentation of supply chains
- International policy responses

### **Distribution:**

- Distribution of negative externalities
- Distribution of Wealth and Income
- Distribution of financial shocks
- Distribution of political values and allegiance





# A Changing World Order

## *What about global governance?*

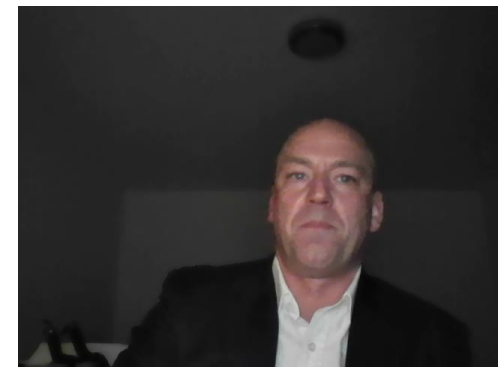


Climate change, pandemic and financial stability are examples of global public goods that would benefit from international policy coordination.....

The changing global order however increasingly complicates, if not prohibits, the articulation of a global policy response.

Institutions of global governance have been hollowed out:

- Unequal representation of the emerging world
- Financial crises and military interventions have dented the image of the West
- Contesting views on perceived universal values
- Disregard of existing arrangements (e.g. non-proliferation)



# A Changing World Order

## *What about global governance?*

Climate change, pandemic and financial stability are examples of global public goods that would benefit from international policy coordination.....

The changing global order however increasingly complicates, if not prohibits, the articulation of a global policy response.

While we see an **increase in the threat of transnational problems**, there is a **decrease in international cooperation**.

- Exacerbates uncertainty
- Adds many more possible outcomes to a given situation
- Makes an assessment of the depth, duration and timing of problems much harder to anticipate





# Exposure

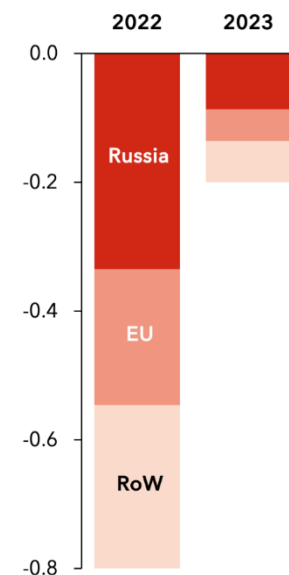
*Exposure to political and economic impact*

- **Hard to escape:** Significant events such as war can have an immediate and negative effect on economic growth
  - **Commodity Dependency:** The depth of this impact depends on the countries involved. Resource exporters have disproportionate impact!
  - **Exacerbating developments and creating new trends:** The current conflict further aggravates the diverging path between emerging and developed economies that opened up after the pandemic.
- **Result:** Increasing complexity, the need for a new global order, and the hollowing out of global governance make a more complex international environment for business. This drives a reversal of globalization.

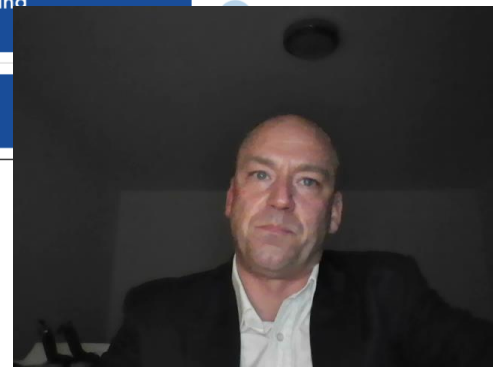
## Shaken by war

Global growth has been revised down for 2022 and 2023 due largely to the impact of the war in Ukraine.

**Total annual revision**  
(percentage points;  
relative to Jan 2022 WEO)



**2022 Real GDP growth**  
(percent; year over year)





# Exposure

## *Markets and Supply Chains (1)*

Economic integration supposed to bring political convergence.....but that was a miscalculation:

- **Brands are ambassadors for their country of origin:** Make sure you understand sensitivities and cultural specifics
- **Companies held at blame for economic externalities:** you may have convinced the authorities, but did you think about the population?
- **Navigating immature institutions:** IP protection, counterfeiting, illicit trade: you may not be as well protected as at home!
- **The risk of a twist in fate:** Economic prospects may be promising, but how long can favorable circumstances be upheld?



**You want the market, but does the market want you?**





# Exposure

## *Markets and Supply Chains (2)*

**Economic integration supposed to bring political convergence.....but that was a miscalculation:**

- **Low production costs will not last for ever:** Economic development pushes up the cost of labour and creates new demands and preferences Make sure you understand sensitivities and cultural specifics
- **Emerging markets will not settle for second place for ever:** there is an open competition for power and influence.
- **Uncle Sam's appeal will not last forever:** there is an increasing pride around homegrown cultural stars that exemplifies increased national pride. Cultural norms and preferences are changing rapidly.



# Understanding your Exposure

*Be Critical, think scenarios, make good decisions*



- **Factor geopolitical risk into the risk assessment process:** a market study should come before the decision to enter the market. It should not be used to confirm your decision
- **Multiple possible outcomes:** Scenario analysis remains unbeaten
- **Credible challenge:** Decision-making is not done without opposing views. Make room for a credible challenge, or even actively create teams that defend opposing views
- **Include second and third order effects:** Geopolitical risk manifestation is not always direct. Don't think your exposure is always confined to the location of the event



# Acting on your Exposure

## *Contingencies and Complexity*



Operating in multiple markets away from home brings complexity: don't cut on the costs.

- **Hedge:** avoid dependencies on single markets or suppliers
- **Head Office advocacy:** Ensure clear flow of information to the main decision-makers
- **It will be different than you thought:** But rehearse it still. Planning for contingencies creates an alert organisation and enhances readiness
- **Long-term contingencies:** Have a fall-back plan and be able to shift production. Spread dependency on consumer markets.





# Be a good citizen

## *Operating in different markets*



**Economic integration supposed to bring political convergence.....but that was a miscalculation:**

- **Mind the S:** Paying attention to the social impact of your presence mitigates the risk of social unrest and retribution
- **Mind the E:** Pay attention to the negative externalities your company presence brings to the local market
- **Mind the G:** attention for good governance, also by advocating this in local communities, will bring long-term benefit



### **Needs:**

- Strong knowledge of the local market
- Be in it for the long term: dedication to the market of your presence



# Thank You!

Questions?

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