**Today's geopolitical environment is changing the priorities for business, and bringing a new focus for boards.**

**The (geo)politics:**

- **Brexit** will have a greater economic impact on the UK than the EU under either scenario. However, it is indicative of a larger trend – polarization leading to an increased pressure on political institutions and featured by, amongst others, social media activism and emergence of social movements. There’s indeed an expanding group of people around the world who think that governments are not meeting their needs. This has led to populist movements at the national level, particularly as pushback against the elite and increasing inequality. This polarization makes it increasingly difficult to create policy in key areas, such as cyber (from e-commerce to data privacy) and climate (from emissions to food and water security).

- The **US-China** trade war brings the convergence of national security and economic policy.

- **Russia** and the potential for a cyber war with the US is a risk not currently being entirely considered by markets, yet the impact could spill outwards to other countries, economies and/or markets.

- **Economic prospects** are weakening for both advanced and emerging economies. Government bonds are yielding nothing (or less), while investors are becoming increasingly leveraged due to low interest rates and increased liquidity. In this current environment, it will be more challenging for governments and central banks to maneuver in a major financial crisis now than in 2008.

**The business impact:**

- Society today is engaged – with politics not translating into policies, social movements are stepping up in regulating business. It’s no longer sufficient to frame reputation management and compliance in regulatory terms. Business now needs to anticipate and respond to more than just the letter of the law, and create a clear social compact that resonates with consumers, investors and employees.

- The potential for the US-China trade war to turn into a “technology cold war” could ultimately lead to increased barriers to trade and destabilizing impacts on global technology supply chains.

- Businesses are looking to (riskier) emerging markets for growth – with their more competitive labor forces, fast-growing consumer bases and rich natural resources of the future (e.g. cobalt). But the interconnection – and indebtedness – of some emerging markets to world powers has the potential to align them to their economic partner, including their business (and technological) standards.

- Companies are combining risk and strategy and spending more time and resources on defense rather than offense (e.g. innovation).

- Climate change requires more coordination between governments and there is a need for increased initiatives from a business perspective.

**Considerations for boards and audit committees:**

- Align with non-traditional experts, such as behavioral and climate scientists, social leaders, etc. to understand the situation.

- Change the conversation from “Is it legal?” to “Is it right?”

- [In looking to grow] think of the geographic hotspots that can ‘go it alone’ or that are well-aligned already to your own footprint - i.e. who will weather the change as the world turns inwards?
— Check:

— Is geopolitical risk considered in your strategy?
— Is there someone in the organization who has control and ownership over thinking through these risks?
— Have you done scenario planning on the best and worst case impacts of these risks? E.g. could your organization deal with a 72 hour internet outage? Could your organization face the impact of an unexpected social movement? Does the company have a “crisis management” protocol (or mechanism) in place? Have you tested it?

Interested in learning more?

— The CEO as the Chief Geopolitical Officer (2018) - see page 11 for questions to start the discussion on whether your business is wired for geopolitical change
— Regulation by the people

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