



Breakfast with Lord Malloch-Brown

Thursday 9 April 2019

KPMG Board Leadership Centre



Lord Malloch-Brown is former deputy secretary-general to the United Nations having served under Kofi Annan. Mark also served in the British Cabinet and Foreign Office and is now a renowned expert on geopolitical risk and a senior advisor at Eurasia Group. He shared his views on the big threats to global confidence (with some Brexit thrown in for good measure) at our FTSE350 Board Leadership Centre breakfast.

There's big trouble ahead. Threats are circling that could undermine the rule of law, erode trust in established institutions and global relationships, and dent confidence for years to come.

US-China Tensions

Competing for top spot on the pile of global geopolitical risks is the deteriorating US-China relationship.

The rivalry between the world's two largest economies is escalating. In 2018, the US imposed ten percent tariffs on US\$250 billion worth of goods – almost half of all Chinese exports to the US – over concerns about China's trade and economic policies. China retaliated with five to ten percent tariffs on US\$110 billion worth of imported American goods and blamed the US for starting 'the biggest trade war in economic history'.

According to US president Donald Trump, the conflict is ostensibly about Chinese steel and American soybeans. But the big battleground is technology where there is something of a 'winner takes all' mentality going on between the US and China. Cyber security, artificial intelligence (AI), surveillance and intellectual property 'transfers' from the US to China – not to forget the breakdown in the Huawei relationship – are behind the hostilities.

China asserted its bid to be a world leader in AI by 2030, prompting the US to flip from co-stakeholder to competitor. As a consequence, US companies are moving parts of their supply chains out of China, impacting productivity and profitability. In turn, Chinese students are being refused US visas, stanching the flow of talent and stymying global innovation and collaboration.

In American eyes, China is pushing for future conflict. China, more pragmatic, finds US provocation a distraction from building its industrial machine, but cannot ignore it.

A 90-day truce on 'tit-for-tat tariff-setting' has passed. Trust is fragile. If tensions escalate, US-imposed tariffs will double, and financial sanctions and criminal indictments kick in. China will respond with antitrust and cyber security measures. However it remains most likely there will be a truce agreed in Trump's Trade War but it will not remove the deeper underlying tensions.

And, if a new Cold War-style political order develops, nations will split into two camps; the global economy will weaken, making deep recession likely.

Russia throwing stones

Up there with China, as the biggest threat to global security, is Russia. Russia might not be top-table in terms of its economy. It is certainly unable to provide for its ageing population. Yet, President Putin somehow remains popular with Russians. It is a country that commands respect it does not deserve and meddles in the affairs of other territories. It has acquired assets in Syria; had its hands smacked by the UN for its ambitions in the Baltics, and continues to occupy Crimea. Tensions in Ukraine are building too as Russia seeks to extend its sphere of influence.

It will take a stabilising third leg to curtail the dominance of China and Russia. The EU, more mild-mannered and a better potential bridge-builder than the US, will have to step up to the plate. However, rocky times could be ahead when Angela Merkel steps down as German chancellor in 2021. Germany has long been the pole of stability in Europe. Inevitably, the party will move towards the right, but attempts will be made to keep dialogue with Russia on track.

Brexit obsession clouds other threats

While Europe is side-tracked by Brexit, other geopolitical manoeuvres are in full swing, threatening control of national strategic assets. China, for instance, is already heavily invested in the Greek port of Piraeus and has designs on Italy's Trieste too. It is part of its 'Belt and Road' infrastructure initiative to secure trade gateways into Europe. The US, France and Germany are increasingly critical of these deals.

Meantime, crises are bubbling across political parties in Europe. The 'gilets-jaunes' of rural France; the remain-leave divide in the UK; the Italian coalition government made up of political newcomers, are symptomatic of growing dissatisfaction. Populism is on the rise and is challenging political systems to reflect the changing views of the electorate.

And nowhere is it more obvious than in the UK that birth and class are no longer a reliable indicator of how voters vote. The Labour party represents a working class that largely no longer exists; the Conservative party, focused on delivering 'the Brexit will of the people', is being reduced to a narrowing pool of older voters. Yet modern Britain is a diverse and ethnic community, with a generation growing up that is accustomed to open markets and freedom of movement. They feel unrepresented.

If neither party is fit for purpose, then we can expect to see new leaders or new parties emerge, both in the UK and across Europe, that are more representative of what the electorate wants.

While attention is diverted by political events going on in Europe and the rest of the world, priorities closer to home are neglected. We risk leaving ourselves under-invested in infrastructure, energy innovation and modernisation and failing to serve our growing populations, tackle bigger issues such as climate change and secure our futures.

Cyber on the worry list

Making mischief with cyber does not carry a hefty price tag. Russia, for instance, allegedly interfered with the US elections and the referendum that led to Brexit (and possibly the forthcoming EU elections too) for less than the cost of fielding a Russian platoon.

The cyber threat is likely to mushroom before it incites some form of organised international response. What is clear, however, is that neither China nor Russia is in a hurry to take the lead.

Africa calling

Africa is a pivotal region. It is where China was back in the 1980s, with an aspiring socialist model and passion for reform. However, as the second largest continent, made up of fifty-four countries, unity is more difficult to attain.

More than twenty countries have signed up to the new African single market and more have agreed in principle. The impetus for this trade integration typically comes from a small forward looking country, Rwanda. All signatories, by and large, well run economies and do not create a significant flow of migrants. But others are stalling, among them Africa's most populous country, Nigeria.

Africa is not going down the same industrialisation track as other nations. Instead of transitioning people from the fields into smokestack factories and into cheap exports, Africa's focus is on the light industrial and services sectors. Kenya, for instance, has one of the most successful renewable energy industries in the world.

Whether the transition happens fast enough to make Africa viable on the world stage is in the balance. Job creation, for example, isn't keeping pace with the youth population entering the employment market. What is evident, however, is that the traditional players, like France, the UK and South Africa have already left the scene, leaving the door open to China, India, Russia and the Gulf nations. The new political competition to influence the continent is sending out worrying geopolitical signals.

Geopolitical risk and the boardroom agenda

A once-a-year presentation on risk used to be sufficient to keep the board informed. These days, geopolitical risks are fast emerging and fast changing. Directors need to keep an eye on the pace of change and be disciplined about managing the impact of risk on the business. They need to be disciplined about what political risks do and do not influence their business.

A good defensive strategy is being invested in the local community and demonstrating long-termism; there's no substitute for investing in local country relations.

Other than that, always remember that the disruptive impact of geopolitics is barreling down the road towards you.

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