



Connecting geopolitics, markets, and strategy

A view from the Eurasia Group

“It’s the most volatile geopolitical environment since World War II,” said Eurasia Group founder Ian Bremmer on the recent KPMG/NACD Quarterly Webcast, “but that doesn’t mean that corporations should stay on the sideline.”

Bremmer joined Jose Rodriguez, executive director & partner in charge of KPMG’s Audit Committee Institute, for a forty-minute tour of the current geopolitical landscape and considerations for business in the years ahead.

“Whether it’s the nuclear ambitions of North Korea or Iran, the turmoil in Venezuela, the future of Brexit and NAFTA, or the Trump administration’s policy agenda, geopolitics matter to business,” said Rodriguez.

Specifically, Bremmer observed three macro-trends in the geopolitical environment:

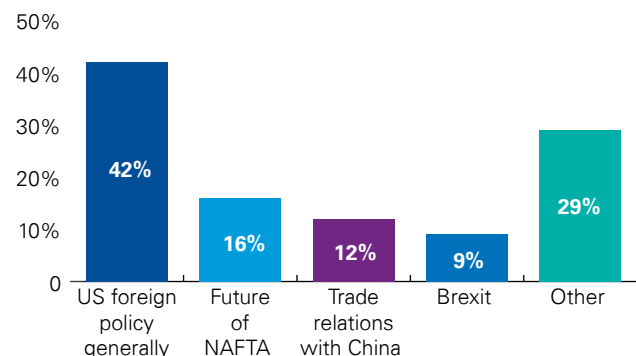
- 1) In a “G-Zero” world, if the United States is no longer driving the global order or values, nor architecting global trade “then our allies are going to hedge away from us” and rogue states are going to be emboldened to do a lot more.
- 2) Challenges to leadership around the world are resulting in “protest votes,” specifically in Europe where France’s President Emmanuel Macron (whose favorability rating has been sinking) came in as an alternative candidate, and Germany’s Chancellor Angela Merkel is seeing her party weakened, even in a strong economy.
- 3) The Chinese economic model continues to emerge as one that is very different from the United States’ and the world’s other liberal democracies. In fact, globalization does not appear to be contributing to political reform in China as many had expected.

Of directors and executives surveyed during the Webcast, a combined 86 percent said they were very concerned or somewhat concerned that geopolitical risks threaten their company’s global operations (including supply chain) today.

Major economies

For business leaders and corporate directors in the **United States**, at least, early predictions about the impact on business of international political volatility and uncertainty have not come to pass. “Executive orders can only go so far,” said Bremmer. And concerns from foreign ministers and heads of state have also been moderated as they realized that “we can work with this guy,” he added. For these reasons, Bremmer doesn’t believe that the Trump administration’s geopolitical stance or agenda should significantly affect corporate planning. On trade, the current situation with North Korea has mitigated initial aggressiveness toward China, and the negotiations on NAFTA may be affected by the upcoming Mexican election.

Which of the following poses the greatest concern to your company in terms of business risk, uncertainty, and/or volatility?



Of 348 directors and senior executives surveyed during the Webcast. Percentages may not add to 100 due to rounding.

In **Europe**, just as growth is returning, the “opposition to bureaucrats, globalism, and free trade is actually growing,” said Bremmer. The refugee crisis is real. It’s creating cultural and economic instability and security concerns. Youth unemployment is a problem and more people are saying “there’s no future here for my children,” said Bremmer. Those who had hoped for further integration among European countries and European institutions are realizing that “it’s not going to happen.” The biggest push remaining is French productivity, but “it’s hard to look at Europe today and believe that it’s going to be functional.”

Consideration for companies looking to do business in **China** will primarily depend on the industry. “Some companies just won’t be able to work in China today,” said Bremmer. “The government has no interest in allowing companies in certain sectors [tech, media], but in other sectors where China wants the best it can get [health care, retail, consumer goods], then American and European companies will have a license to operate and their brands will be attractive.” In high-speed rail, aviation, and automotive, for example, where it benefits China to build internally and export, companies will have a harder time competing. “The government only allows leading technology firms to operate if the government has some level of control,” said Bremmer. The same goes for media. Yet China’s global economic ambitions are still muted. “They’re not thinking about the Renminbi as an international currency. It’s not true financial liberalization,” said Bremmer. “In China, you can be inefficient and create a lot of jobs for people. And that’s what helps political and social stability.”

Among other large countries and significant economies, Bremmer believes that **India** “will be a very attractive place” for business with much stronger top-down leadership under Prime Minister Narendra Modi, though some sectors will be harder [retail, health care] than others. For **Russia**, which has a relatively small economy, Bremmer believes that U.S.-led sanctions will stick and the country will remain undiversified. **Brazil**, following a few years “of unprecedented scandal,” will take a lot of time to turn around, but its “strong judiciary is helping to clean up election proceedings and make congress more responsive.”

Other global trends

With regard to **trade**, said Bremmer, “we’re headed away from a U.S.-led global free market and toward one that is more fragmented. There will be more tariffs, more protectionism, and more rules regarding foreign direct investment.—big data, artificial intelligence, robotics, and surveillance—has become more strategic to governments and has begun to look more like a military asset. It’s not a free market there.”

While Bremmer is less concerned about the nuclear capabilities of North Korea, he is worried about the cyber capabilities. “It looks like a criminal syndicate integrated with the state.” North Korea and Russia, Bremmer believes, are exposing a weakness in Western governments on **cybersecurity** and cyber defense if their citizens’ personal information is compromised and “the government can do nothing.” “It will clearly be on business leaders and boards of directors to keep cyber top of mind for their organizations,” added Rodriguez.

In the boardroom

Bremmer concluded by exhorting corporate directors and senior management to “understand what government wants and its ability to implement those things. It’s changing radically and will affect the bottom line. What is the nature of your company’s government relations?” he asked.

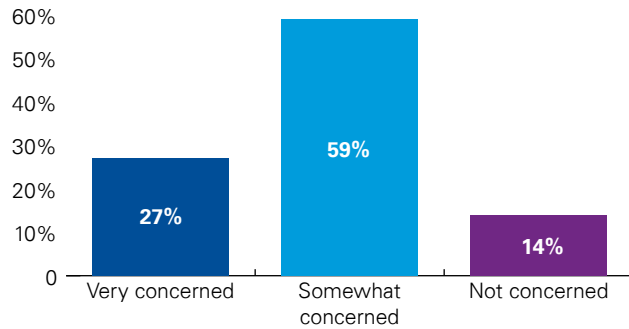
There is an emerging expectation that companies “be more patriotic and do more for citizens.” How will it affect plant closures and other company plans? “You’ll be asked to justify ‘how are you an American corporation?’ When it comes issues like sustainability or gender equality, you can’t just tick the box, you have to really understand who benefits.”

“Standing still is not an option,” said Rodriguez. “Even with tremendous volatility and uncertainty in the geopolitical environment, there are still strategic moves to make and key risks and opportunities to focus on. You can’t wait out such a competitive market.”

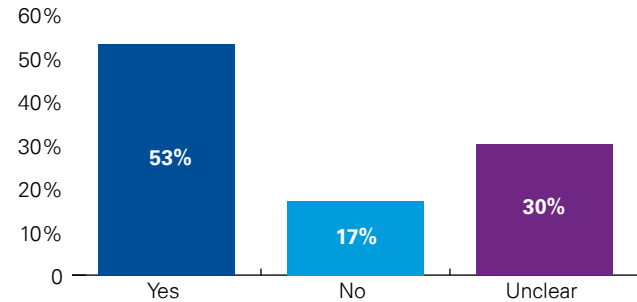
Hear more from Ian Bremmer at the KPMG Board Leadership Conference in San Diego, January 8–10. Register now at kpmg.com/boardleadershipconference.

Webcast survey results

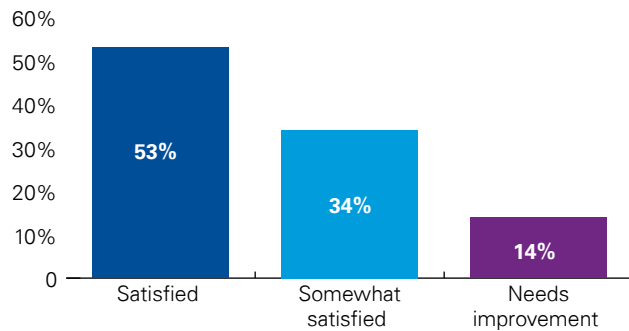
How concerned are you that geopolitical risks threaten your company's global operations (including supply chain) today?*



Are you satisfied with the quality of the discussion your board is having with management regarding the impact of geopolitical risks on the company's operations and strategy?



How satisfied are you that your board has the range of experiences and skill sets—including differing perspectives and worldviews—to add value in a more globalized business environment?



Of 348 directors and senior executives surveyed during the Webcast. Percentages may not add to 100 due to rounding.

**Excluding those surveyed who said their companies do not have global operations.*

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