

Key Considerations for Geopolitical Risks Management in a Complex and Uncertain World

By Gregor McQueen

Foresight & Planning for PESTLE Uncertainties ...



© 2024 McQueen Associates LLC | www.Geopolitical-RM.com |

Copyright © 2024 McQueen Associates LLC. All rights reserved. Gregor McQueen is CEO and Founder of McQueen Associates LLC which is a leading and independent advisory firm providing critical analysis & thought, insights, foresight, risk mitigation and planning solutions for (geo)political and interconnected systemic risks. Geopolitical Risks Mitigation™ (GRM™) is a trademark of McQueen Associates LLC. www.Geopolitical-RM.com

The information contained herein is not to be construed as legal, business, investment, or tax advice, and is for informational purposes only. Although we endeavor to provide accurate information, world events can change rapidly and there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. While we source the latest available data, the information may involve older data (as recent data may not exist) so no representation, or express or implied warranty is provided with respect to the accuracy, completeness, or reliability of this information. It may also include descriptions of future risks or contain forward-looking statements of possible future events. The future is inherently uncertain, and organizations should exercise prudence, due diligence, and their own judgment in making decisions. Neither McQueen Associates nor its owners, directors, employees, or agents accept any liability for any loss (direct or indirect) or damage arising out of the use of information herein. Any opinions expressed in this document may change without prior notice.

Contact: info@Geopolitical-RM.com

Key Considerations for Geopolitical Risks Management



July 12, 2024

1. **Geopolitical risks are complex**, never simple or binary; there are only shades of gray. They are dynamic and driven by interconnected issues including domestic **political, economic, social, technological, legal / regulatory, and environmental** ('PESTLE') uncertainties and changes.

- **Global CEOs currently rank geopolitics and political uncertainty as the greatest impediment to corporate growth and planning because they disrupt global stability.**

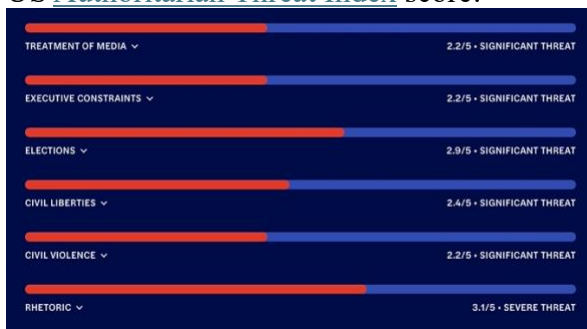
"The geopolitical situation remains complex and potentially the most dangerous since World War II — though its outcome and effect on the global economy remain unknown."

Jamie Dimon, CEO of JPMorgan Chase

Source: JPMC [announcement](#) of 2Q 2024 results on July 12, 2024

- impacts on businesses can be significant as geopolitical alliances change and alter the world economy. In a short 5-year timeframe, the EU has distanced itself from Russia's government that now depends on the Peoples Republic of China (PRC), the US government continues to take a much more cautious approach to PRC, and other countries (including Brazil, India, Mexico, Saudi Arabia & Gulf States, Turkey) are seeking greater economic benefits and global influence.
- risk examples include uncertain future election results and policy decisions, PRC-RoC tensions and 59 other active state conflicts (including Russia-Ukraine, Israel-Palestine) or other political violence, AI, cybersecurity, espionage/mis-/disinformation, critical resources, subsidies & trade tariffs, and climate change / extreme weather; all are critical issues for businesses to assess.
- the risks are no longer restricted to emerging, developing, or 'frontier' markets. Political risks have lead to massive changes in formerly 'stable' places like Hong Kong, the UK (Brexit) and the US. In the US, questions center around potential diminishing democracy and government disfunction and partisanship. Regardless of personal political opinions, the C-Suite should [consider](#) US politics as a new systemic risk as well as how potential degradation of the 'rule of law' or political violence may impact their operations.

US [Authoritarian Threat Index](#) score:



Results of a [2023 survey](#) of **22 Institutional Investors** representing almost \$10 trillion AUM revealed that:

- 90% believe threats to democracy in the US are rising
- < 30% of these investors are confident that US public companies are equipped to manage political risk today, and that only 45% "are well-prepared to handle political risk to their businesses in the US."
- more than 60% say they incorporate concerns about political risk into conversations with US company board directors and executives, and another 20% said they are considering doing so now.

- the variety of risks can be challenging primarily due to human nature, human influences and biases involved in decisions emanating from these risks. Whether political leaders are autocratic or democratic, power struggles, conflicts and wars between nations or regions, religions, or ideologies have occurred – and will continue – throughout human history. As will operating in such complex conditions, with new technologies accelerating changes.

Key Considerations for Geopolitical Risks Management



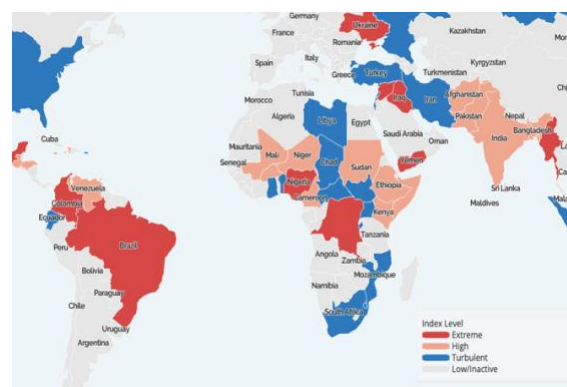
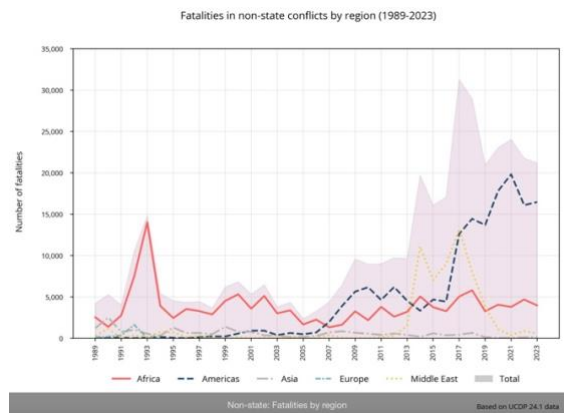
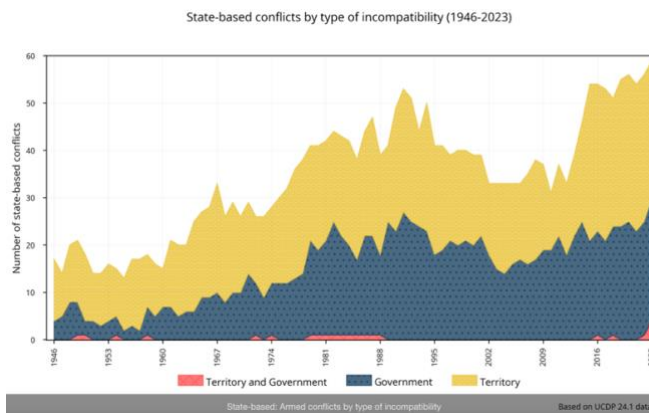
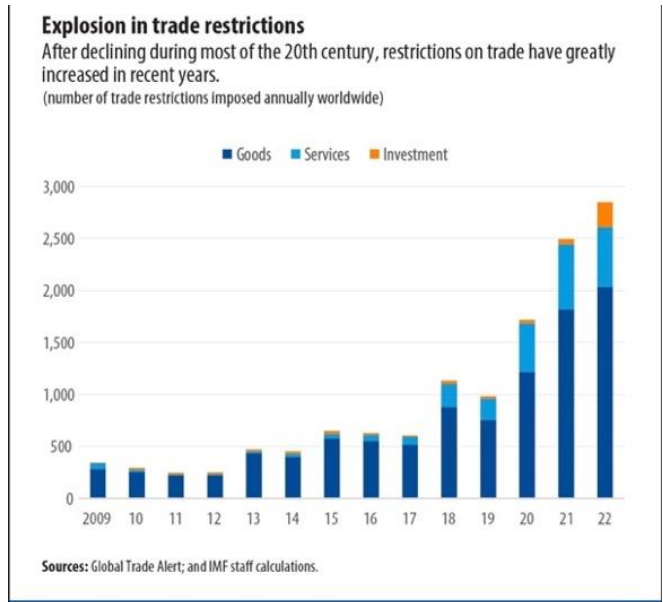
2. **Megatrends: a changing geopolitical world order driven primarily by governments' national security / interest concerns, a 'race' over new technologies (to-date semiconductors, energy transition & critical resource materials, and AI), and a priority for supply-chain resilience but also potential food security concerns due to increasing extreme weather events.** In the past, geopolitical risks have mostly been 'resolved' within a few years. However, this is changing for a variety of reasons as we have entered a new period of:

2.1 geopolitical fragmentation

2.2 **weakness in global governance (UN, WTO) and real challenges to trade flows** including a significant increase in subsidies and ~3,000 new cross-border trade restrictions in 2023 and 2022, (up from about 1,000 in 2019 and 600 in 2017).

Source (pictured right): Global Trade Alert data per [IMF World Economic Outlook, April 2024](#)

2.3 an **angrier, more violent world** with rising state-based conflicts, fatalities in non-state organized violence, and other '**political violence**' due to population polarization. While risk indices can have differing methodologies for analysis of political violence data, they all report these risks have increased significantly:



Sources: Uppsala Conflict Data Program (UCDP) and ACLED

Key Considerations for Geopolitical Risks Management



3. **Successfully managing geopolitical risks demands proactive critical thinking.** Many businesses have historically reacted to political events rather than *proactively* anticipating and planning for potential futures. Their increasing impacts demand new critical thinking:
- there is no ‘data’ for future events or decisions made by as-yet-unknown politicians. Therefore, the risks require proactive and dedicated focus with (1) a cross-functional team that is centrally coordinated by an experienced (geo)political risk practitioner, and (2) a geopolitical strategy developed with the Board or C-Suite leadership team. The team should provide a geopolitical risk management center of expertise and draw on cross-business-unit internal expertise with particular focus on strategy, foresight, risk management, corporate affairs & sustainability, business continuity and **resilience planning**. Instead of this ‘whole corporation’ approach, some companies delegate their geopolitical decisions to business units who may have competing vested interests. Not having a coordinated corporate geopolitical risk strategy is no longer pragmatic.
 - in most cases, the initial step involves a **contextual and holistic assessment** because each business has different objectives, operating locations and risk (appetite & tolerance) profiles. Navigating political risk is not just about having in-country employee expertise and intel. To make better-informed decisions about a company’s PESTLE exposures, asking the ‘right’ questions is essential to tracking desired outcomes (and assumptions made) back to the actual drivers and restrainers of revenue and costs.
 - **strategic corporate foresight** is required to minimize surprises (not predict the future). This has been shown to provide an average 30% greater profitability and 200% market cap. growth.
 - successful businesses rely on **critical thinking and accurate forecasting** to make better **quality** decisions that are essential to achieving their ‘mission critical’ outcomes. Most humans average only 40-55% (coin flip) accuracy when making 90% confidence estimates of **certain** outcomes. What if you could increase forecasting and decision accuracy around future uncertainties by **65%** or more?

Resilience planning requires preparing for PESTLE uncertainties and potential tipping points.

Reduce Uncertainties with Holistic Analysis ...

