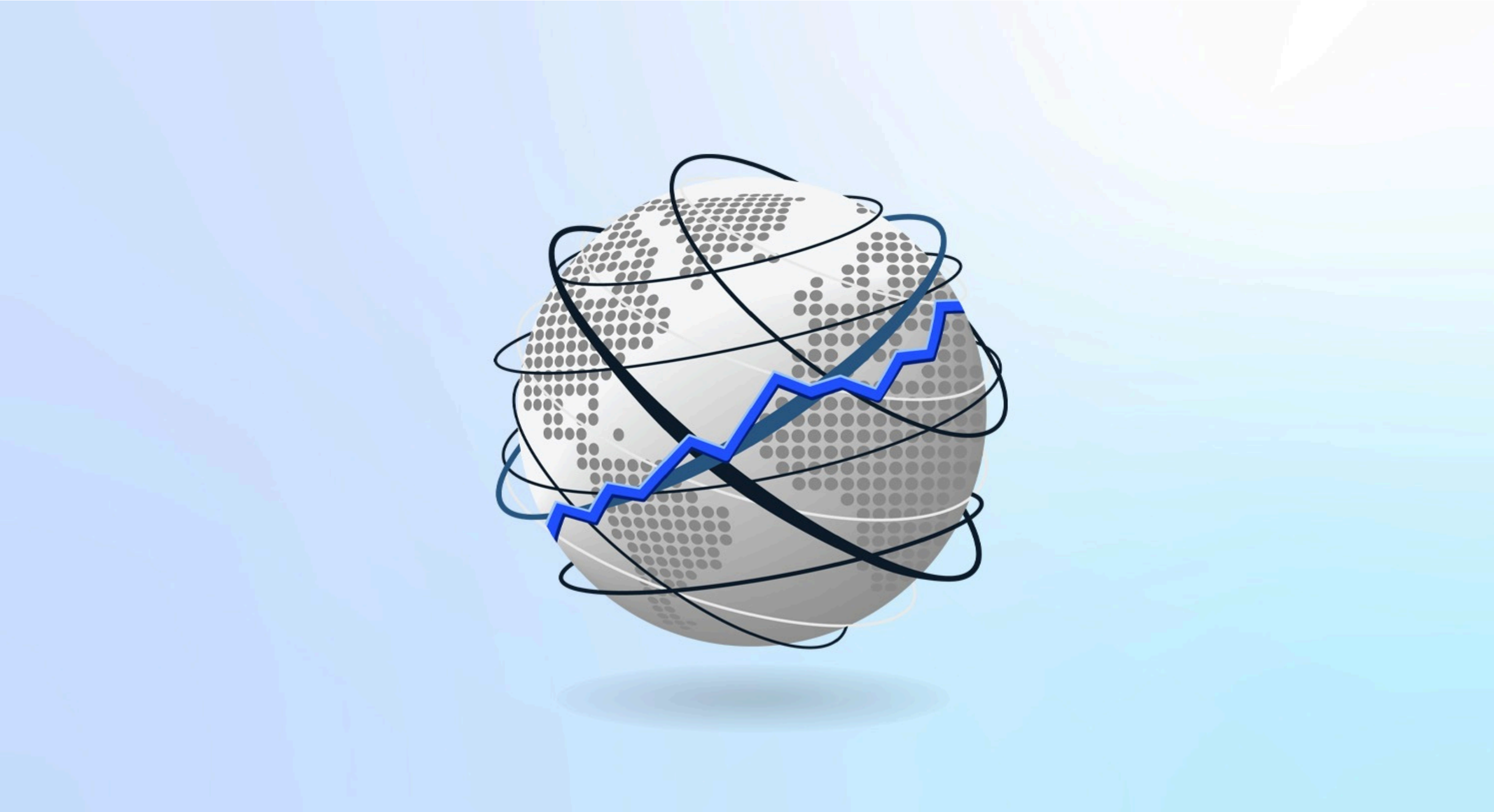
McKinsey & Company

Geopolitics Practice

A proactive approach to navigating geopolitics is essential to thrive

Business leaders must go beyond mitigating geopolitical risks to seizing the opportunities presented by the new world order. Here's how.

by Cindy Levy, Shubham Singhal, and Matt Watters



November 2024

"You may not be interested in geopolitics, but geopolitics is interested in you."
—October 2023 statement from members of the Five Eyes intelligence alliance to leaders of Western multinational companies.

Geopolitical conditions have always influenced companies' fortunes, but at least since the end of the Cold War, they've tended to take a back seat to macroeconomic, strategic, and operational concerns.

No longer.

Business leaders today view geopolitical tensions as the biggest risk to economic growth, according to the latest McKinsey Global Survey on economic conditions. Regional conflicts and international trade divergences have intensified in recent years, testing the resilience and strategies of multinational corporations. For instance, tariffs on goods exchanged between the United States and China have increased up to six times since 2017, and globally, trade interventions have surged 12-fold since 2010.[1]

CEOs and boards understand that a shift in the global order is under way.[2] However, many have yet to grapple with an important implication: these geopolitical shifts present not only risks to mitigate but also opportunities to seize.

Given their fiduciary responsibilities, business leaders understandably tend to focus primarily on the downsides of such shifts, asking questions such as: Which of my products and operations are geopolitically sensitive and how does this sensitivity differ by region? At what point do I need to switch suppliers? How much of my workforce requires visas and how might visa approval challenges affect our productivity in certain parts of the world?

It is important to craft risk and response plans to address those and other potential downsides.

But even as they improve their resilience to shocks, business leaders should focus on opportunities for risk-adjusted value creation. They should consider tailoring their growth strategies, core business operations, technology stacks, talent footprints, capital asset portfolios, and organizational capabilities with an eye toward thriving and not just surviving.

Business leaders should be asking themselves questions such as, will our competitors' products be more or less expensive than ours because of new tariffs and taxes? When and how can we align our business with trade flows into new corridors? What new economic and security alliances could also create opportunities for us to grow or to change our cost structure? What industrial policy incentives might present significant growth potential for us? How is our risk-adjusted cost of capital changing across geographies and how might we optimize our capital deployment?

When organizations view geopolitics through a value-creation lens, they can realize outsize benefits. Consider these examples:

— A North American medical-devices company that shifts its manufacturing operations and supply chain to Mexico from another country to take advantage of trade agreements could save 15 to 25 percent on operating costs while increasing its operating resilience.[3]

— A payments company that moves into the Asia–Pacific region by 2027 could access an additional $1.5 trillion in revenues.[4]

— A semiconductor company that changes its sales and marketing strategy to include targets in the Taiwan-to-Singapore corridor could gain an additional $47 billion in market share.[5]

---

[1] *Geopolitics and the geometry of global trade*, McKinsey Global Institute, January 17, 2024.
[2] Net change in trade interventions 2010–23, according to the World Bank's Global Trade Alert.
[3] Mike Doheny, Manuel Gómez, Carlos Nolasco, and Carlos Ornelas, "To regionalize or not? Optimizing North American supply chains," McKinsey, December 16, 2022.
[4] *On the cusp of the next payments era: Future opportunities for banks*, McKinsey, September 2023.
[5] Global trade explorer, McKinsey Global Institute, accessed September 30, 2024.

By contrast, business leaders who disproportionately focus on the downsides can find themselves paralyzed, perpetually on guard for the occurrence of high-severity but low-probability geopolitical events. Instead, they should be systematically and continually assessing the full complement of value drivers across trade, economic, and industrial policies and in the areas of defense and security (Exhibit 1).

These include tariffs, the provision of subsidies in support of national industrial policies, and governments' bias toward investing in geopolitical allies across supply chains, talent, technology and data, capital deployment, and other business domains.

In this article, we explore these value drivers and explain how a proactive approach to geopolitics can help companies both safeguard existing operations

Exhibit 1

There are ten key value drivers that leaders should explore in the wake of geopolitical shifts.

Actions taken in response to geopolitics

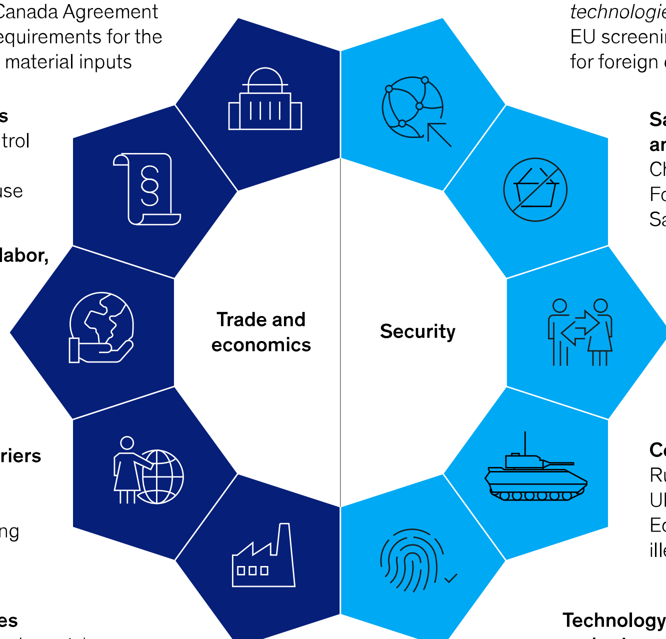
Trade agreements
(eg, free, preferential, and international pacts)
The US–Mexico–Canada Agreement (USMCA) and its requirements for the product content in material inputs

Import and export controls
The EU export control regulation and its oversight of dual-use technologies

Domestic environmental, labor, and immigration policies
Regulations on emissions, or USMCA wage rate requirements

Tariffs and other trade barriers
US tariffs on steel, aluminum, electric vehicles, etc, coming from China

Domestic industrial policies
(eg, subsidies, tax breaks, and grants)
India's "Make in India" initiative



Foreign investment restrictions
(eg, investment in sensitive technologies)
EU screening regulations for foreign direct investments

Sanctions, embargoes, and restricted lists
China's Anti-Foreign Sanctions Law

Multilateral cooperation and alliances
NATO or AUKUS[1]

Conflict
Russia's invasion of Ukraine, conflict in Ecuador related to illegal drug trade

Technology, intellectual property, and cybersecurity controls
China's Data Security Law, or Europe's General Data Protection Regulation

[1]Trilateral security partnership between Australia, UK, US.

McKinsey & Company

and capture emerging opportunities in various geographical and industry segments.

How a proactive approach to geopolitics can generate value

Many management teams and boards have made a point of aligning their corporate strategies and capabilities with realities on the ground. They have appointed a chief geopolitical officer, set up geopolitical intelligence units to provide early warning of emerging events, developed response plans to empower CEOs in times of crisis, and protected their supply chains from external shocks.

A few advanced leadership teams are taking the next step, however, and exploring ways to create value amid geopolitical disruption. They are finding opportunities in three areas in particular—accelerating growth, optimizing business operations, and developing capabilities and strategies to address global disruption.

Accelerating growth

To make better investment decisions and seize commercial opportunities amid shifting global tensions, business leaders should assess what growth looks like for them, their customers, and their competitors. They should analyze a range of growth scenarios that reflect the implementation of any of the ten value drivers outlined in Exhibit 1. Through this exercise, business leaders may find opportunities for commercial acceleration or for rebalancing portfolios.

Commercial acceleration. As geopolitical conditions change, companies may be able to attract new customers and capture more market share. Opportunities may emerge when new tariffs disproportionately increase the cost of a competitor's product, for instance, or when new trade agreements make it possible for a company to market to customers who have historically been out of reach. For instance, the construction equipment company Caterpillar was well positioned to increase sales in Australia and Chile because of free trade agreements among those two countries and the United States.[6]

Current shifts in trade corridors are already reshaping industries. Data from the International Monetary Fund, for instance, show substantial changes across the top trade routes between 2021 and 2023, mostly between China and the United States (Exhibit 2).

Other research shows that net foreign direct investment (FDI) inflows to China decreased from $344 billion in 2021 to $42.7 billion in 2023, the lowest FDI inflows in three decades.[7] Analysts predict that this redirection of investment will likely accelerate over the next decade.[8] It will be critical for business leaders to monitor where this funding lands.

Portfolio rebalancing. As geopolitical shocks occur, once-stable, high-growth business segments may falter, while previously overlooked segments may represent new potential. Business leaders are already hardwired to continuously assess and react to shifting competitive dynamics in their industries. They must navigate geopolitical disruptions in the same way, continually evaluating and reallocating capital to higher-growth, lower-risk segments—through mergers, acquisitions, or partnerships—and divesting from underperforming, high-risk areas.

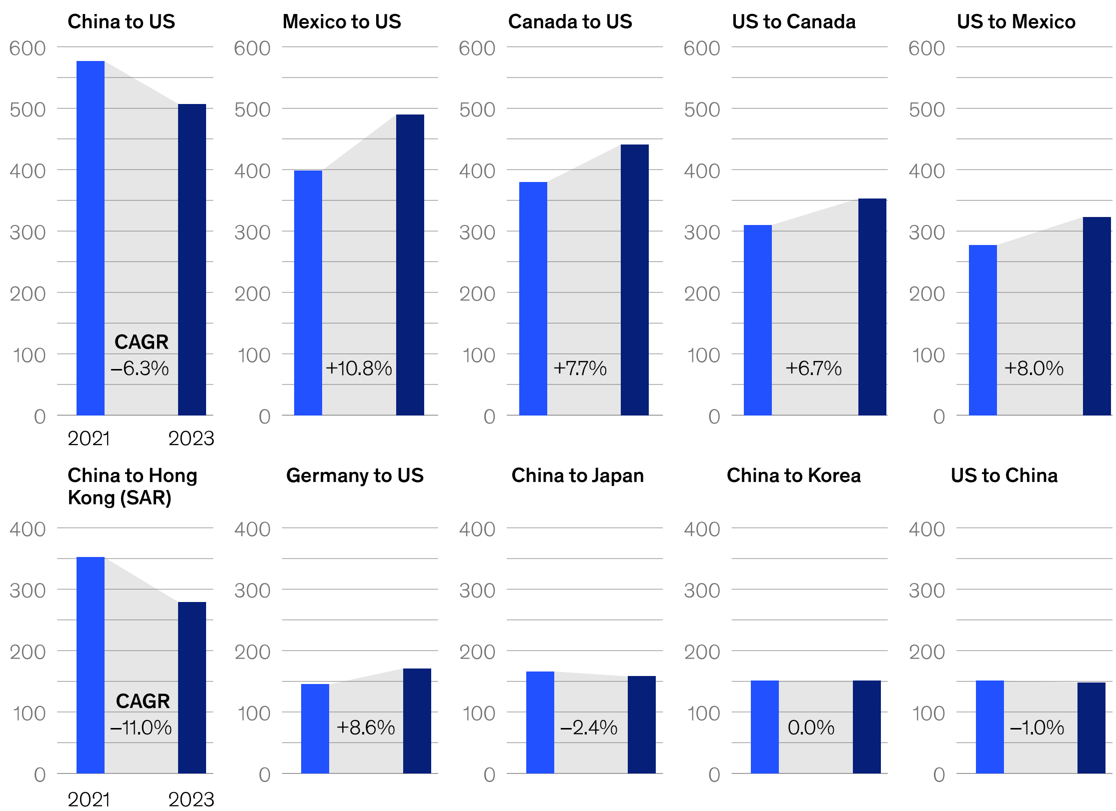
One private equity fund, for instance, identified portfolio companies in regions where profits were likely to shrink because of regional conflicts and redirected them to more stable geographies. Additionally, fund executives identified products that could be considered "dual use"—that is,

[6] "Caterpillar applauds Korea - U.S. Free Trade Agreement (FTA)," PR Newswire, December 3, 2010.
[7] Tianlei Huang and Zhuowen Li, "Foreign capital exodus from China accelerates," Australian Institute of International Affairs, September 30, 2024.
[8] Han Shih Toh, "US capital flight from China will take years to reverse: experts," FinanceAsia, May 7, 2024.

Exhibit 2

There have been meaningful shifts in many global trade corridors over the past several years.

Shifts in global trade between 2021 and 2023, $ billion



Source: McKinsey analysis, using International Monetary Fund Direction of Trade Statistics (DOTS) data

McKinsey & Company

products that could have both commercial and military applications—and would be especially vulnerable to cross-border trade scrutiny. They relocated the manufacturing of these products to areas that would be less exposed to dual-use regulations if those regulations were to increase in scope.

Similarly, a global dairy organization built out several geopolitical scenarios that were likely to develop over the next ten years based on global trends. The company's leaders considered those scenarios against each of its products and the locations in which the products were manufactured and sold. Based on that analysis, the executive team decided to sell off one of its business units and used the proceeds to double down on investments in a different region that showed growth in most of the scenarios generated. As a result, the global dairy's share price grew more than 10 percent in the next fiscal year.

Sometimes portfolio balancing incorporates hedging, adjusting capital intensity, increasing liquidity buffers, or adopting localization strategies. These moves can all be part of a standard risk-reduction strategy, but they can also help improve the bottom line. For example, a global automaker implemented a hedging strategy that maintained its risk profile while saving $15 million annually. It reduced its balance sheet hedging by 50 percent and switched to out-of-the-money options—and in doing so improved its management of resources. Additionally, when this process revealed that the company's liquidity buffer was too high, the company repurposed that excess—nearly a billion dollars—to repay debt, lower hedging costs, and increase floating debt. This all started with business leaders assessing the company's geopolitical exposure.

Optimizing core business operations

Business leaders can boost organizational resilience when they assess the degree to which geopolitical shifts can affect the cost-effectiveness of their operations, including their relationships with suppliers, their global talent strategies and capabilities, and their technology infrastructure.

Operating footprint. One of the most important decisions for any business leader is where the company will invest in its manufacturing, storage, and customer engagement activities. These commitments can shape the company's trajectory—and geopolitics can play a big role in unlocking new sources of value. The global electronics company Samsung factored in favorable trade agreements, competitive labor costs, and the strategic advantages of location (in this case, Vietnam) when considering where to invest $2 billion in additional manufacturing capacity.[9] Meanwhile, technology giant Apple, which had traditionally based its manufacturing capabilities in China, has diversified its manufacturing footprint. It recently expanded to India, for instance, to increase manufacturing resilience, take advantage of competitive costs, and engage in growing markets.[10]

Supply chain. Recent geopolitical events have caused notable disruptions in the supply chain and have led to facility closures, prompting many supply chain leaders to source from multiple vendors, move away from just-in-time ordering and delivery, and even stockpile critical inputs. Some are using advanced technologies to anticipate and prepare for future geopolitical disruptions.

For instance, one consumer-packaged-goods (CPG) company was facing substantial changes to its underlying supply network, so it constructed a digital twin of its supply chain to understand all the potential effects of these geopolitical shifts. The analyses conducted in the digital-twin environment prompted the CPG company to change certain elements of its supply chain. In doing so, it was able to reduce its reliance on third-party manufacturing sites, improve its yard management, optimize its labor development, and establish a stronger carrier mix. These moves helped the CPG company reduce overall operating expenses and increase projected growth for the following fiscal year.

Other companies are taking advantage of industrial policies that offer incentives for domestic production or supply chain localization. The electric-car company Tesla, for instance, leveraged

[9] Melissa Cyrill, "Samsung's US$1.8 billion investment to boost Vietnam's OLED manufacturing capability," Vietnam Briefing, September 23, 2024.
[10] Amy Sood, "Apple starts iPhone 16 production in India, diversifying supply chain away from China," *South China Morning Post*, September 12, 2024.

the tax credits presented by the US Inflation Reduction Act of 2022 to strengthen its supply chain. It sourced materials domestically and shifted its manufacturing capabilities from Germany to the United States.[11] More recently, Mexico has proposed tax credits to attract foreign companies that source inputs from that country.[12]

Talent footprint. Geopolitical tensions can complicate talent management and undermine workforce cohesion across cultures and nationalities. But there are steps that companies can take to account for such disruptions, including reviewing talent concentration patterns, rebalancing workforce allocations, and localizing important functions, such as human resources or IT support.

The engineering, construction, and urban development company Egis, which has operated in Ukraine since 1993, was able to maintain its operations in the country and maintain productivity throughout the recent conflict by quickly pivoting to remote work.[13]

One global bank, with back-office services and call centers in multiple geographies, performed a geopolitical scan and realized that it would have a hard time finding and hiring talent in certain countries. The bank's executive team also projected that the cost of conducting business in those countries would likely increase because of impending changes in cross-border trade agreements. Given these data, the team decided to relocate employees from regions where visa and trade restrictions were most onerous and refocus its hiring efforts in new regions with less exposure to geopolitical risk.

Digital talent is perennially in short supply; some companies have reached out to expatriate workers to help fill the gap, which in turn has increased these businesses' exposure to risk from changes to visa or immigration law. One way to avoid or mitigate this risk is to establish delivery centers in those locations that are rife with digital talent—for instance, India, Mexico, the Philippines, and Poland—and where governments offer incentives for companies that are willing to relocate talent.

Technology and data. Today's multinational organizations have built technology functions in which the talent, infrastructure, and data footprints extend across borders, which leaves their technology stacks and other resources exposed to geopolitical headwinds. Potential threats include cyberattacks, intellectual property theft, data localization requirements, potential disruptions from trade conflicts, and fragmented IT and data regulations across the globe.

Global IT leaders need to continually assess their technology and data footprints (and those of their third-party providers) to hedge against shocks and remain resilient and agile as policies evolve. Online giant Google chose to build data centers in Finland to harness the country's abundant renewable-energy resources and to move the company closer to achieving its stated sustainability and carbon-neutrality goals.[14] Meanwhile, Malaysia has offered tax incentives and established the Digital Ecosystem Acceleration initiative to attract companies looking for new sites for their data centers—Google and Microsoft are among those investing.[15]

The capabilities and strategies required to respond to geopolitical disruption

It's one thing for a business executive to be informed about the potential upsides and downsides of geopolitics. It's another thing entirely

[11] Victoria Waldersee, "Tesla scales back German battery plans, won over by U.S. incentives," Reuters, February 22, 2023.
[12] Cassandra Garrisoin and Anthony Esposito, "Exclusive: Mexico's new government mulls tax incentives to lure foreign companies," Reuters, October 21, 2024.
[13] "France's Egis aims to help build Ukraine back better," *Business Ukraine*, September 30, 2024.
[14] "Hamina, Finland," Google Data Centers, accessed November 2024; "Google invests 1 billion euros in Finnish data centre to drive AI growth," Reuters, May 20, 2024.
[15] Sheila Chiang, "Google to invest $2 billion in Malaysia and build data center to capture rising AI demand," CNBC, May 30, 2024.

for the organization to have the capabilities required to respond to them—including corporate strategies that take geopolitics into account and capital structures that are sensitive to geopolitical realities.

Broadening the view of corporate strategy. Companies routinely monitor regulatory, tax, and other local policies that directly affect their business strategies. They must similarly monitor geopolitical risks and economic policies in the countries in which they operate—recognizing, of course, that geopolitical influences are often uncertain and intertwined, as actions from one country beget reactions from another. In such environments, leaders must fold geopolitical considerations into their regular strategy- and business-planning exercises and engage their boards on these topics.

Leaders should start by identifying which potential geopolitical and global economic shifts could have the largest effect on their corporate interests. What vulnerabilities, capability gaps, and growth opportunities are revealed through this assessment? Which, if any, strategic decisions would leaders need to adjust if policy or other changes occur? What value could be created under various scenarios? It's worth remembering that certain capital investments (for instance, in oil or natural gas pipelines, semiconductor fabrication plants, power plants, or mines) can take decades to build, running through multiple administrations and election cycles.

The question of whether current shifts in policy could affect a company's strategic decisions depends on the company's appetite for risk. What investments would it be willing to make so the company could take advantage of uncertain but potentially large growth opportunities? What insurance policies should it purchase to mitigate the largest potential downside risks? To explore these questions further, business leaders should engage in scenario planning and tabletop exercises. In these exercises, participants play different roles and discuss potential responses to a range of potential disruptions—for instance, to the outbreak of local conflicts, emerging security threats, or changes in tariffs or industrial policies. Such exercises can help business leaders and board members focus on the decisions they can control rather than trying to predict what may or may not come to pass.[16]

Future-proofing multinational organizations. The recent rise in trade and nontrade barriers has disproportionately affected global businesses—which makes it even more important for future multinational corporations to anticipate the impact of potential laws, policies, and regulations. Without this foresight, multinationals may be subject to forced market exits, which come with their own financial and reputational costs. For example, BP exited Russia three days after the war in Ukraine began, leaving behind its holdings in Russian oil and gas company Rosneft. As a result, BP had to take a charge of more than $24 billion in its accounts and its earnings were reduced by $2 billion a year. Some companies are relying more on structural segmentation to ensure that production, talent sourcing and management, supply chain, R&D, and other operating activities can go on even if one division or region is cut off. These businesses have also empowered their leaders and teams to make decisions locally and create stable growth pathways. For example, HSBC recently reorganized its Eastern and Western businesses to simplify its governance structure and reduce risk.[17]

Other companies are refocusing on resolution planning, which first emerged in the wake of the 2008 financial crisis but has been gaining steam with the rise of various geopolitical disruptions. It

[16] "Statement on media reports regarding bp's exit from Russia," BP press release, December 2, 2022.
[17] Adam Mawardi, "HSBC splits bank amid growing tensions between China and the West," Telegraph UK, October 22, 2024.

requires large financial institutions and certain other firms to describe their strategy for a rapid and orderly resolution in the event of material financial distress or failure.[18] As they consider such planning in the context of geopolitics, business leaders should take care to engage boards and risk committees in these discussions. Such entities can help ensure robust oversight of both growth and risk-mitigation agendas.

Building a dedicated geopolitical functional group. The companies that react most swiftly to geopolitical disruption are typically those that make it a core part of their investment and operating decisions. Many of these companies have constructed functional groups whose primary focus is to monitor the geopolitical landscape, help build forecasts, plan against various scenarios, and keep senior leaders and the board informed so they can respond quickly. Having such a functional group in-house, led by a geopolitics officer and staffed by a specialized team, can ensure that the company is positioned to take advantage of both current global shifts and the ones that will inevitably emerge. The structure provides regular opportunities for boards and senior leaders to discuss geopolitical risk and opportunities in a detailed, nuanced way, allowing them to react quickly and, in the longer term, establish a culture of geopolitical resilience in their organizations.

Establishing a crisis response playbook. Geopolitical events can throw organizations into crisis—but, in our experience, the organizations that bounce forward more quickly tend to be those that have codified the results of their scenario-planning and tabletop exercises and collated them into crisis response playbooks. Such playbooks provide a starting point for assessing the potential impact of local conflicts, unexpected tariffs, policy changes, or other shifts. The outcomes may still be uncertain, but in the meantime, leaders and teams have a guide for working through volatility. One semiconductor company, in its playbook, delegated certain responsibilities to the CEO in the case of disruption to the supply chain but tapped others to manage other aspects of the crisis, thus ensuring that all were focused and able to remain productive as the company substantially altered its supply base.

As our overview makes clear, a proactive approach to geopolitics is essential but also a major undertaking. Organizations must have insight, foresight, oversight, and the right capabilities—but most of all, they must have the fortitude to seize opportunities amid volatility, complexity, and uncertainty. The effort is worth it, however: the executives who think deeply and act on the shifting world order today will be the market leaders of tomorrow.

Cindy Levy, a senior partner in McKinsey's London office, and **Shubham Singhal**, a senior partner in the Detroit office, are coleaders of McKinsey's Geopolitics Practice; **Matt Watters** is a partner in the New Jersey office.

The authors wish to thank Ezra Greenberg, Mihir Mysore, and Ziad Haider for their contributions to this article.

[18] Living Wills (or Resolution Plans), Board of Governors of the Federal Reserve System, 2024.