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2024

How are leading companies managing today's political risks?

2024 | Survey and Report

Oxford Analytica

PART OF FiscalNote

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01 Executive summary

The acceptance phase of political risk loss

As the 2020s dawned, there was perhaps a tendency towards denial. In our 2020 survey, only 30 percent of respondents said they were concerned about political violence risks. Three years later, as the conflict in Ukraine escalated dramatically, 50 percent reported experiencing an actual loss from that peril.

Similarly, in 2022, respondents said they were more concerned about political risk in Asia than in Europe, even though the survey was conducted as Russian troops massed on the Ukrainian border. In 2023 and this year, somewhat belatedly, concerns about political risk in Europe topped the charts.

If we may be permitted to read a story into the trends in our survey numbers over the past seven years, between 2022 and 2023 many of our respondents shifted from denial into shock. According to our survey, political risk losses of all kinds soared in 2023 (not just political violence – see the graph on the next page). The impact of the Ukraine conflict was felt through currency inconvertibility (as transfer restrictions were placed on Russian rubles and Ukrainian Hryvnia), via a rise in losses attributed to Western sanctions, and even an uptick in expropriations (as the Russian government nationalized foreign investments).[i]

Perhaps understandably, in the 2023 survey, shocked respondents tended to see disaster looming around every corner. For every geopolitical trend we queried, close to half our survey sample claimed the trend would "greatly strengthen" (see the graph on the next page). That may have been an overreaction, given that we asked about a diverse set of trends ranging from populism to a political focus on inequality.

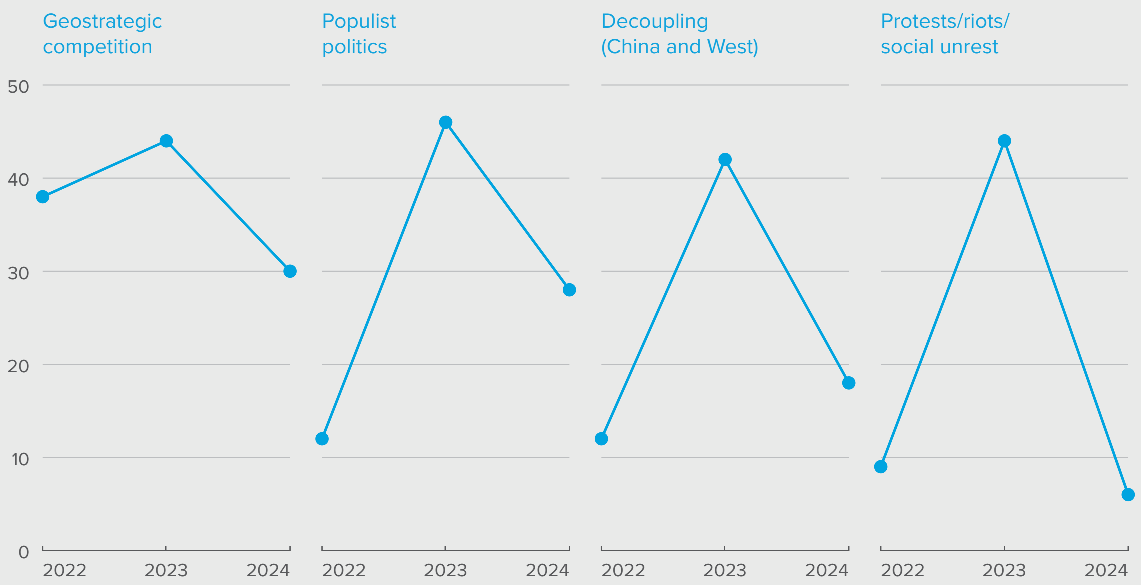
Perhaps we might say that in this year's survey, we are reaching the acceptance phase of political risk loss? "There is perhaps more awareness ... of 'black swan events' – those that can be envisioned but not predicted – and thus more awareness of how to envisage this type of event and how to establish company systems that would prove resilient in such cases," as one of our in-depth interviewees, in the US food and beverages sector, put it.

"When I began working for my firm a few years ago, geopolitical risk was effectively an afterthought behind, for instance, market intelligence," said an interviewee in the healthcare sector. "Since then, the COVID-19 pandemic, the Russia-Ukraine war and the situation around Taiwan are prime examples of what has made geopolitical risk functions far more recognized and important in the company's thinking."

Types of political risk losses experienced (%)

Note: All respondents; for 2022, n = 44; for 2023 & 2024, n=50

Percent saying each trend will 'greatly strengthen' (%)



Note: All respondents; for 2022, n = 44; for 2023 & 2024, n=50

The panicked 2023 view that every adverse geopolitical trend will "greatly strengthen" has abated. There is now differentiation: in our 2024 poll, 30 percent of respondents see "geostrategic competition" as greatly strengthening, but for most other geopolitical trends, roughly 15 percent – or less – think so.

At the same time, respondents are far from sanguine about political risk. An overwhelming 96 percent said they have added new political risk management capabilities this year. More than 70 percent reported experiencing a political risk loss. Large majorities reported concern about political risk in Asia, Europe, Russia, the Middle East and North America.

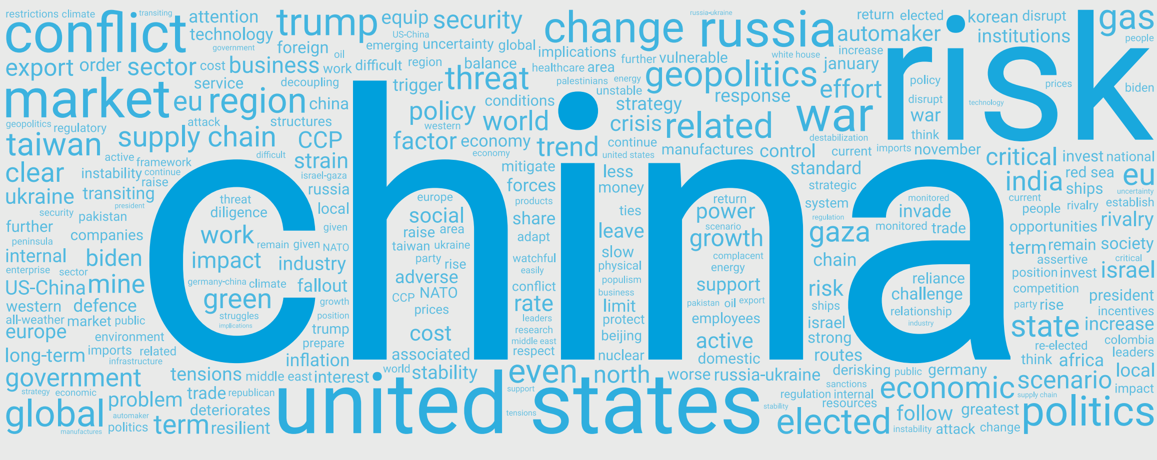
The heyday of the global rules-based order appears to be over. Geopolitics is now more volatile and less kind to globalized business. Large majorities predict that trends such as geostrategic competition, economic nationalism, democratic backsliding, and populism will increase in 2024 (along with lesser-known threats such as "gray zone aggression"). Our respondents appear to accept that political risk loss is a tangible possibility, but few are sounding the retreat from globalization just yet.

What specific issues are of concern to our respondents? As with previous years, we conducted in-depth interviews in addition to our broader survey.

A word cloud of the interview responses appears below. More details about their concerns, of course, appear in the main body of this survey report.

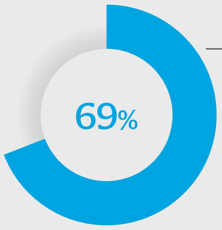
To be sure, not everyone has reached the acceptance phase of political risk loss – at least, not for every business function, or every type of risk. "The biggest challenge related to all this is internal," an interviewee in the mining sector claimed. "It's difficult to mitigate this threat because business leaders don't grasp just how unstable the West has become. They've built their assumptions and understanding of the world during several decades of relative stability, and don't really appreciate that a way of thinking and planning that enabled them to be successful then won't work anymore."

Word cloud of in-depth interviews

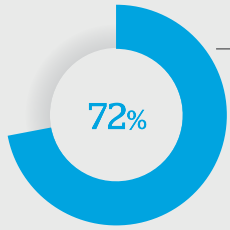


At a glance

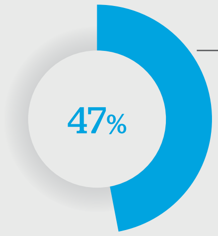
For details of respondents and sample size, see main report.



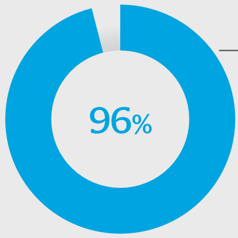
Experienced supply chain disruption due to geopolitical events



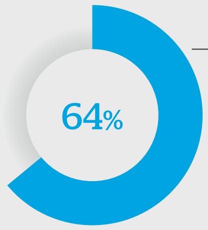
Experienced a political risk loss of any kind



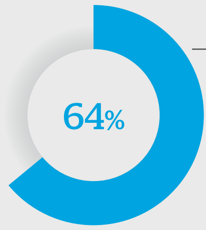
Experienced a political risk loss of greater than $50 million (of those experiencing a loss)



Invested in new political risk management capabilities in 2023/2024



Reported concern about political risk in Asia



Reported concern about political risk in North America

02 About the research

In keeping with the past several years of this study, this year's research combined in-depth interviews with a broader survey of a larger sample of companies. There were 50 respondents to the survey; there were 12 participants in the interview panel.

This year, we mixed the survey demographics of previous years, combining a client survey (our approach in 2018-2022) with a representative sample of globalized companies (our approach in 2023).

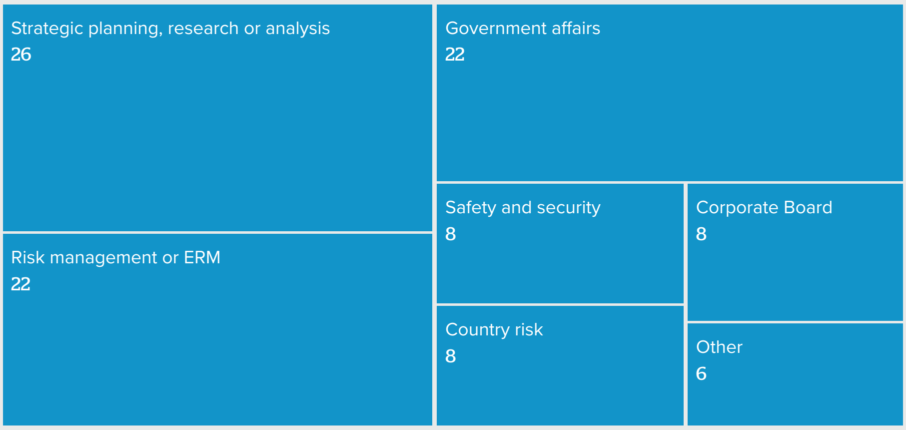
With more than half of this year's respondents being clients of WTW and Oxford Analytica, the sample is once again biased towards the world's largest multinational firms, which tend to invest heavily in management of political risk. This year's respondents are also weighted towards the external affairs, research and strategy, or risk management functions.

As a result, some year-on-year changes in results may reflect changes in the sample composition. In the analysis that follows, we have flagged questions where we believe such changes may have played a significant role.

Among respondents to the survey, Europe and Asia-Pacific are over-weighted. By contrast, among our in-depth interview panel, North American and European companies are roughly equally represented, with most other participants hailing from Latin America (although all respondents in both the survey and panel work at globalized companies that operate in multiple world regions).

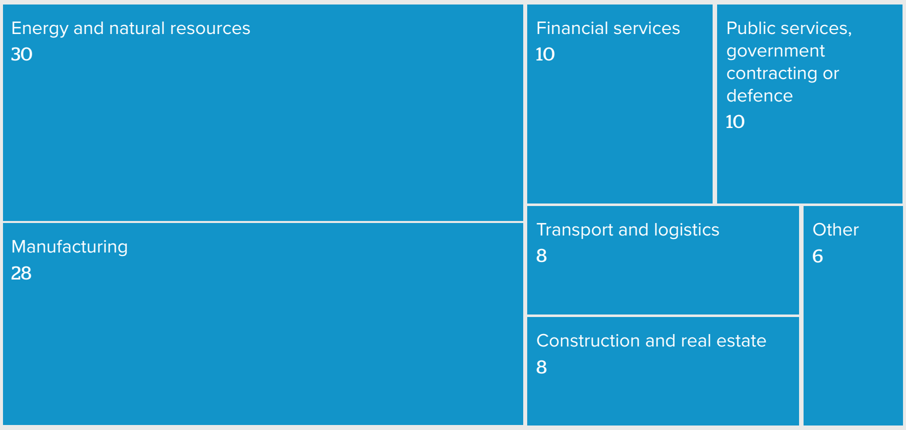
We thank the survey participants and panelists for their time and insights.

Job function of respondents (%)



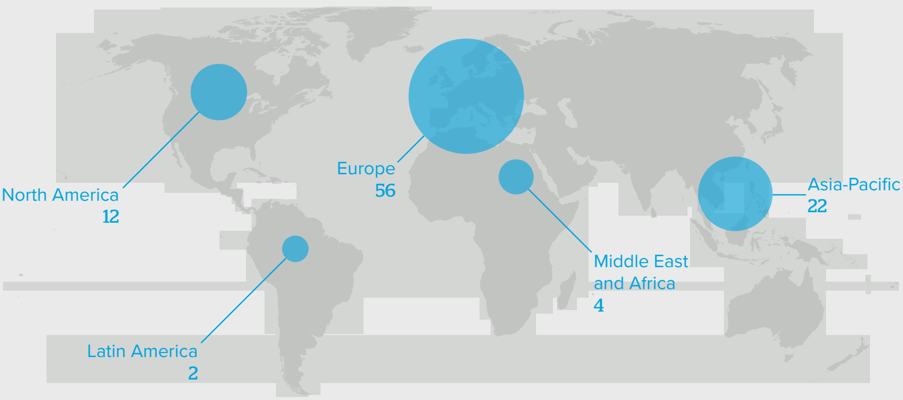
Note: all respondents; n=50

Industry of company (%)



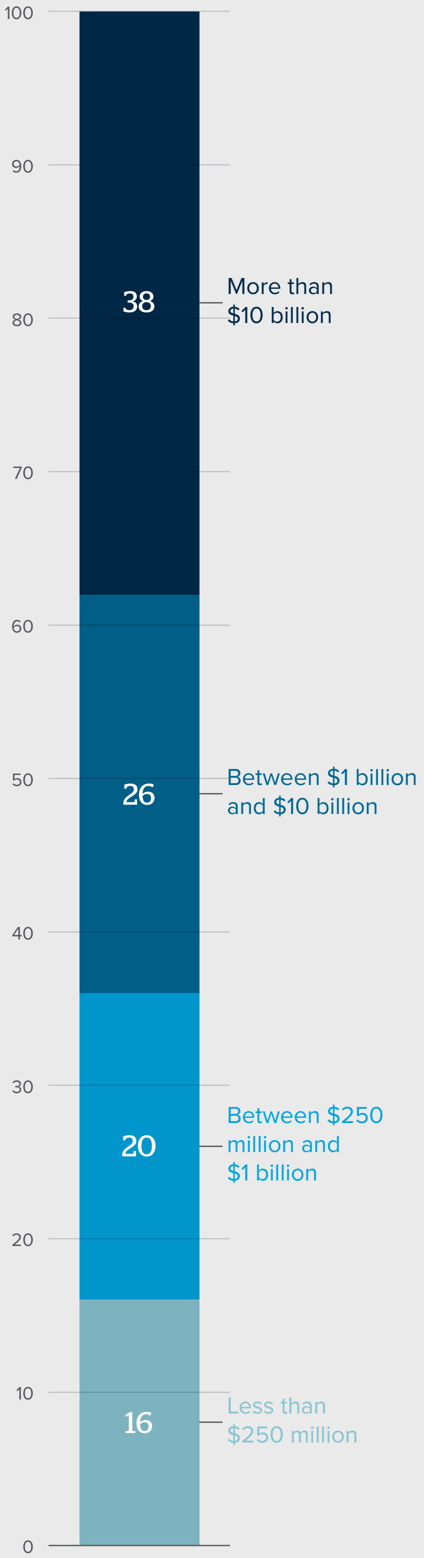
Note: all respondents; n=50

Headquarters location of company (%)



Note: all respondents; n=50

Annual revenue of company (%)



Note: all respondents; n=50

03 New geopolitical trends

Risks and regions of concern

Many of our respondents were, as noted in the summary, arguably slow to appreciate the risks associated with a major escalation of conflict in Ukraine. In the 2022 survey, conducted as Russian troops massed on the Ukraine border, their concern focused on Asia, presumably reflecting rising tensions between China and the West in the wake of the pandemic.

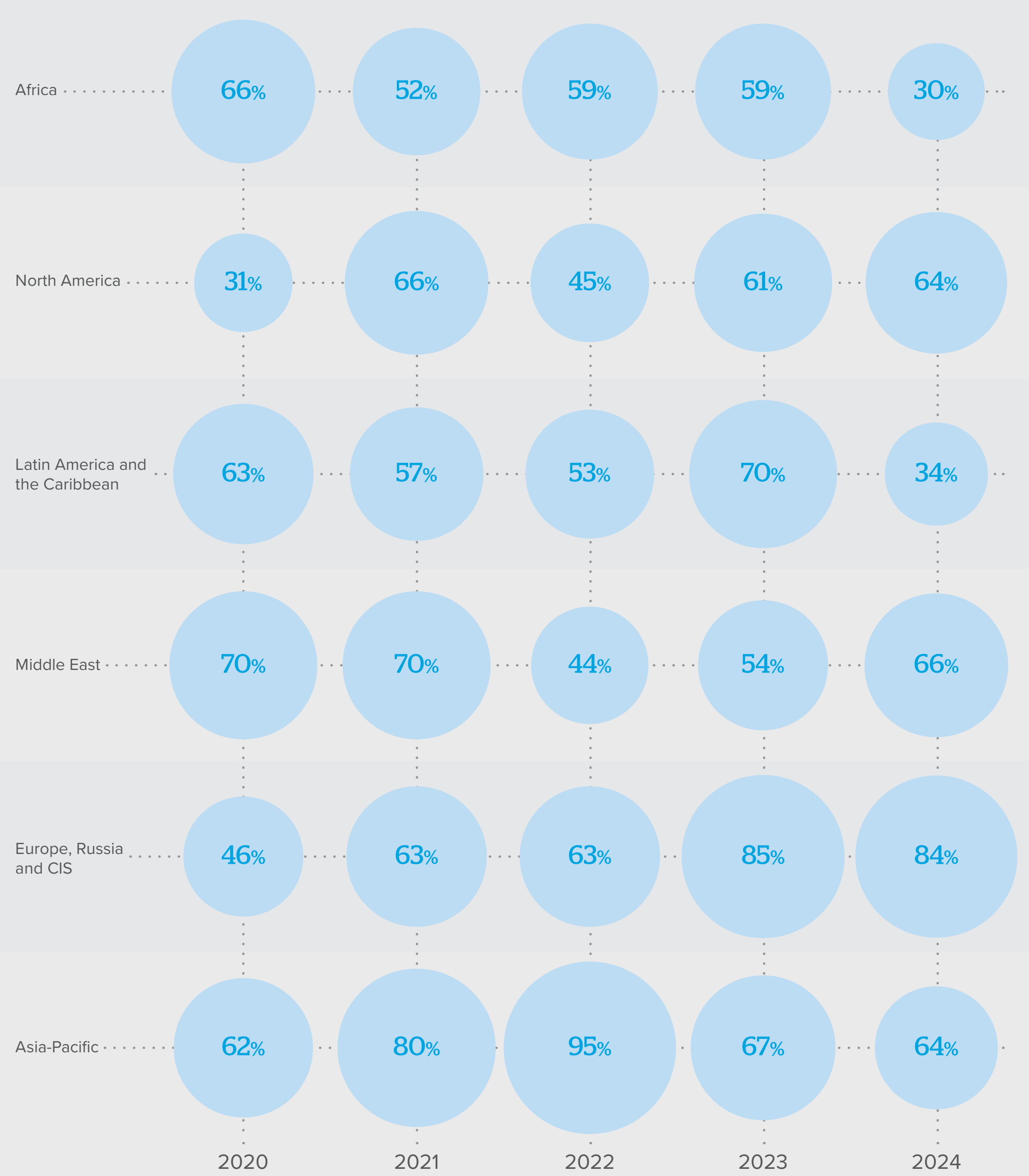
In 2023 and again this year, concern about Asia receded somewhat (to "only" 64 percent of respondents), while Europe and Russia stand out as the regions of focus (see graph). A Russian decision to escalate the conflict in Ukraine could be an "existential concern," a panelist in the European healthcare sector noted.

Concerns about the Middle East, understandably, rose this year (after a year of decline). So did concerns about US policy and stability in a potentially contentious election year. By contrast, concerns about Latin America faded, presumably as a result of Brazil's peaceful transition of power (although by some accounts, that transition was not without risk).[ii]

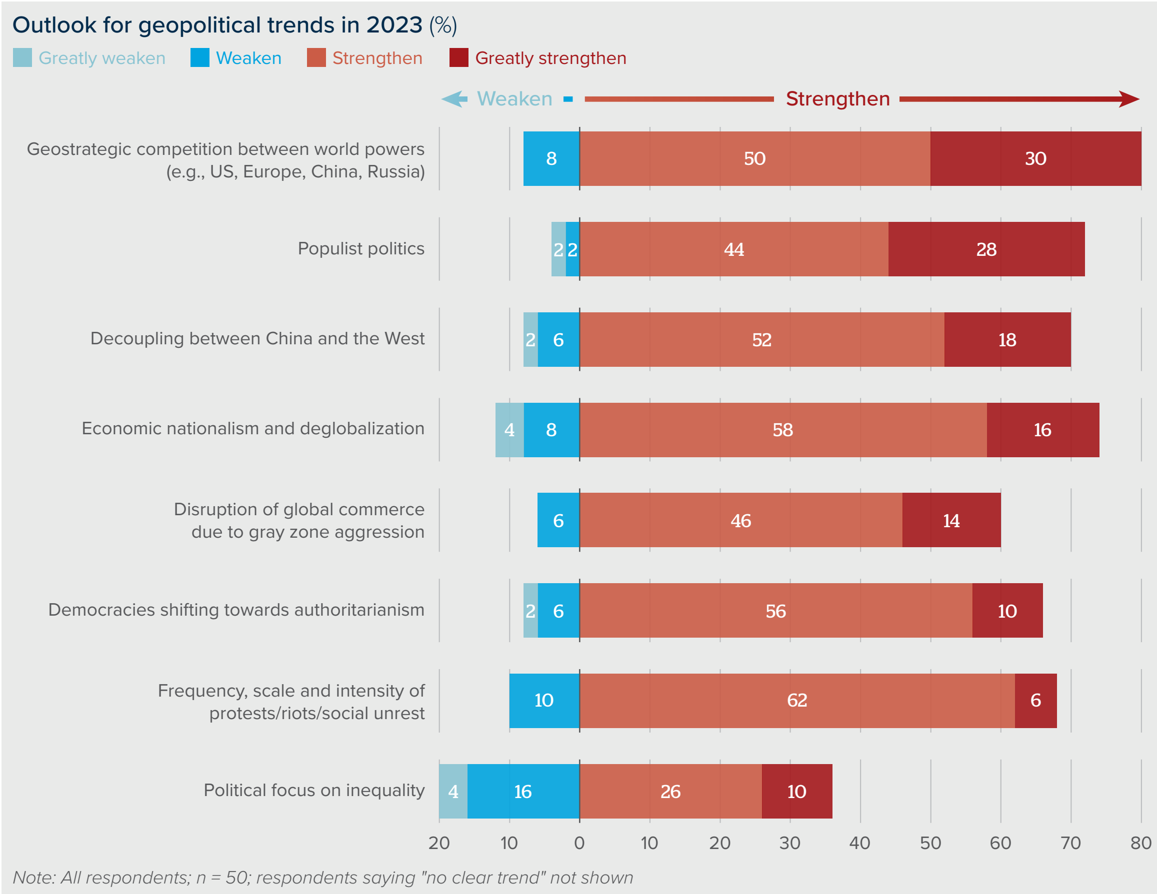
After generalized alarm about adverse geopolitical trends in our 2023 survey, in 2024, respondents began to differentiate. Some trends were overwhelmingly seen as "increasing" but not "strongly increasing;" economic nationalism and social unrest stood out in this regard. "Geostrategic competition" and "populist politics" were, by contrast, notable for large proportions of "strongly increasing" respondents. Geostrategic competition is "multifaceted, spanning the economic, technological, political, defense and diplomatic spheres," as a panelist in the European automotive sector put it.

As in previous years, "political focus on inequality" was our most divisive trend, with a significant minority of respondents saying the trend would increase, while a smaller but still notable minority said it would decrease.

Percent saying they are 'concerned' about political risk in each geographic region (%)



Note: proportion saying 'concerned'; respondents saying 'no exposure' excluded; n varies by world region but is always more than 2/3 of the yearly sample



Outlook for geopolitical trends in 2023 (%)

Note: All respondents; n = 50; respondents saying "no clear trend" not shown

The gray zone goes mainstream

A new trend we asked about this year, the trend towards "gray zone aggression" disrupting global commerce, ranked a worrying fifth on our list, ahead of notable and well-documented geopolitical shifts including democratic backsliding and the rising frequency of social unrest.

What is gray zone aggression and why is it seen to be rising? Elisabeth Braw, a senior fellow with the Transatlantic Security Initiative at the Atlantic Council, defines gray zone aggression as an action that takes place "in the gray zone between war and peace and is used to weaken a country using means short of war."[iii]

A major advantage of gray zone aggression, from a perpetrator's point of view, is that conventional means of deterrence – such as economic sanctions or military action – are only weakly effective against gray zone actors, because the intent of the action and the identity of the perpetrator may be difficult to discern (an example being the damage to the Nord Stream pipelines connecting Russia and Europe). For this reason, gray zone action has tended to be a headache for advanced industrial democracies, and a popular tactic for states opposing these countries on national security issues.

Please indicate the types of 'gray zone aggression' of greatest concern to you? (%)

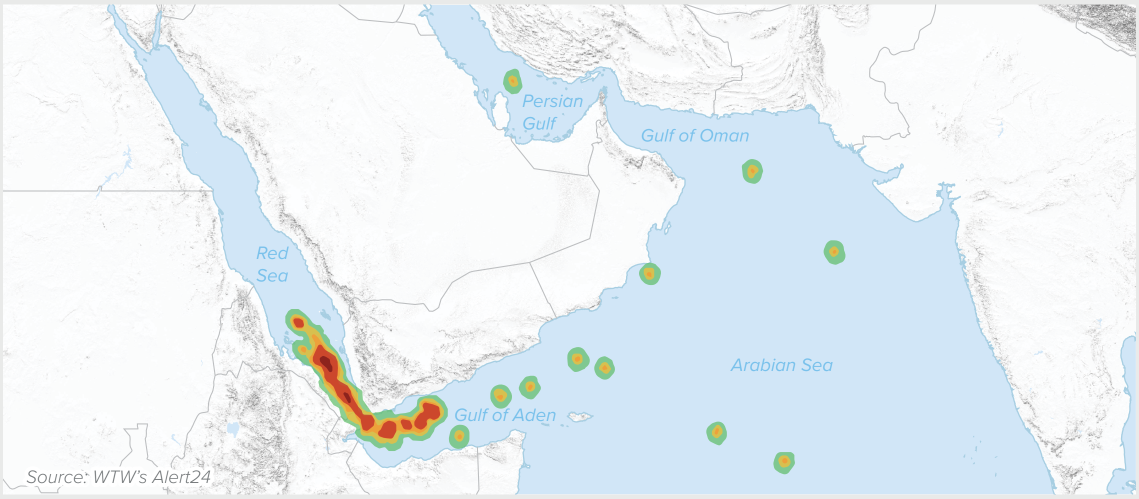
Note: All respondents; multiple responses permitted; n = 50

Why did the gray zone leap into the mainstream of business concerns in 2024? Reading between the lines on our survey results, we can almost certainly credit the Houthis, a rebel group in Yemen.

The Houthis are combatants in a long-running civil war in Yemen, a war that has witnessed heavy external intervention, with Iran seen to support the Houthis and a Saudi-led coalition seen to support the Yemeni government.[iv] Following years of being targeted by coalition air strikes, the Houthis developed the capability to strike at remote targets including, perhaps most dramatically, a Saudi oil installation in 2022.[v]

Fast forward to the current conflict in Israel. The Houthis have disrupted global shipping with a series of remote attacks on more than 40 merchant and naval vessels.[vi] Despite US-led airstrikes against the Houthis, there were multiple severe attacks in the first quarter of 2024, with the first sinking of a vessel following an 18th February 2024 attack, and the first loss of sailors' lives on 6th March 2024.[vii] Partly because the Houthis are a non-state actor, it is difficult for the West to find an effective deterrent response. Moreover, retaliation against Iran, the state often said to be sponsoring these attacks, is difficult because Iran is only indirectly involved (for instance by allegedly providing weapons or intelligence to the Houthis).[viii]

Heat map of maritime incidents in the Red Sea and Gulf of Aden, November 2023 – April 2024

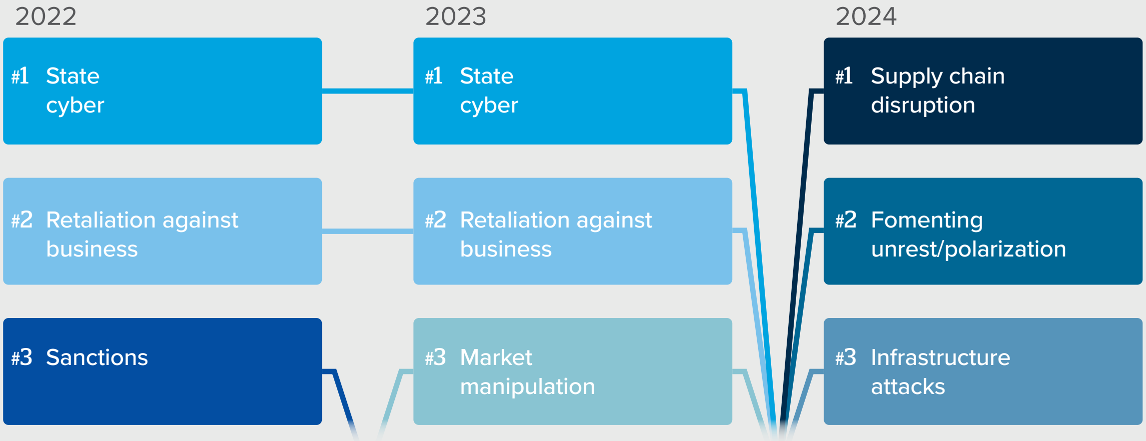


Our survey respondents very likely had these events on their minds when they put "state-sponsored supply chain disruption" at the top of their 2024 list of gray zone concerns (thus knocking "state-sponsored cyber attacks" out of the top spot for the first time in our survey – see graph).

The Houthi attacks highlight another trend stemming from the rise in gray zone aggression. Traditionally, offshore assets, from ships to oil platforms, have been seen as low risk, because they are out of harm's way. But new technologies (such as drones) that enable remote attacks have become more widely available, and these hard-to-defend assets are ideal gray zone targets, especially when located in international waters (as with the Houthi attacks on shipping, and the cutting of undersea cables near Taiwan).[ix]

Perhaps partly for this reason, the third-greatest gray zone concern among our respondents was "attacks on infrastructure" including undersea pipelines and cables.

Top three 'gray zone' actions of concern (number of mentions)



Note: All respondents; multiple responses permitted; for 2022, n=44; for 2023 and 2024, n=50

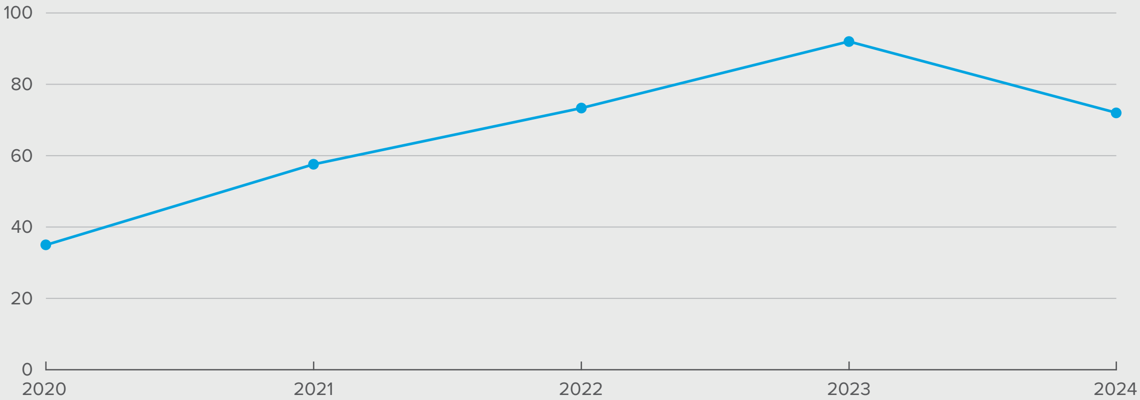
04 Patterns of political risk loss

The costs of war

As we noted in the executive summary, the events of 2023 appeared to be a shock to many companies – more than 90 percent of respondents in that year's survey reported a political risk loss, and 100 percent of respondents reported adding new political risk management capabilities (for more on capabilities, see the next section).

This year's results are not quite as extreme, with "only" 72 percent of respondents reporting losses – roughly the same as in 2022, which had previously been our highest year on record. The most common cause of loss in 2024 was disruption of supply chains due to geopolitical events.

Experienced a political risk loss (%)

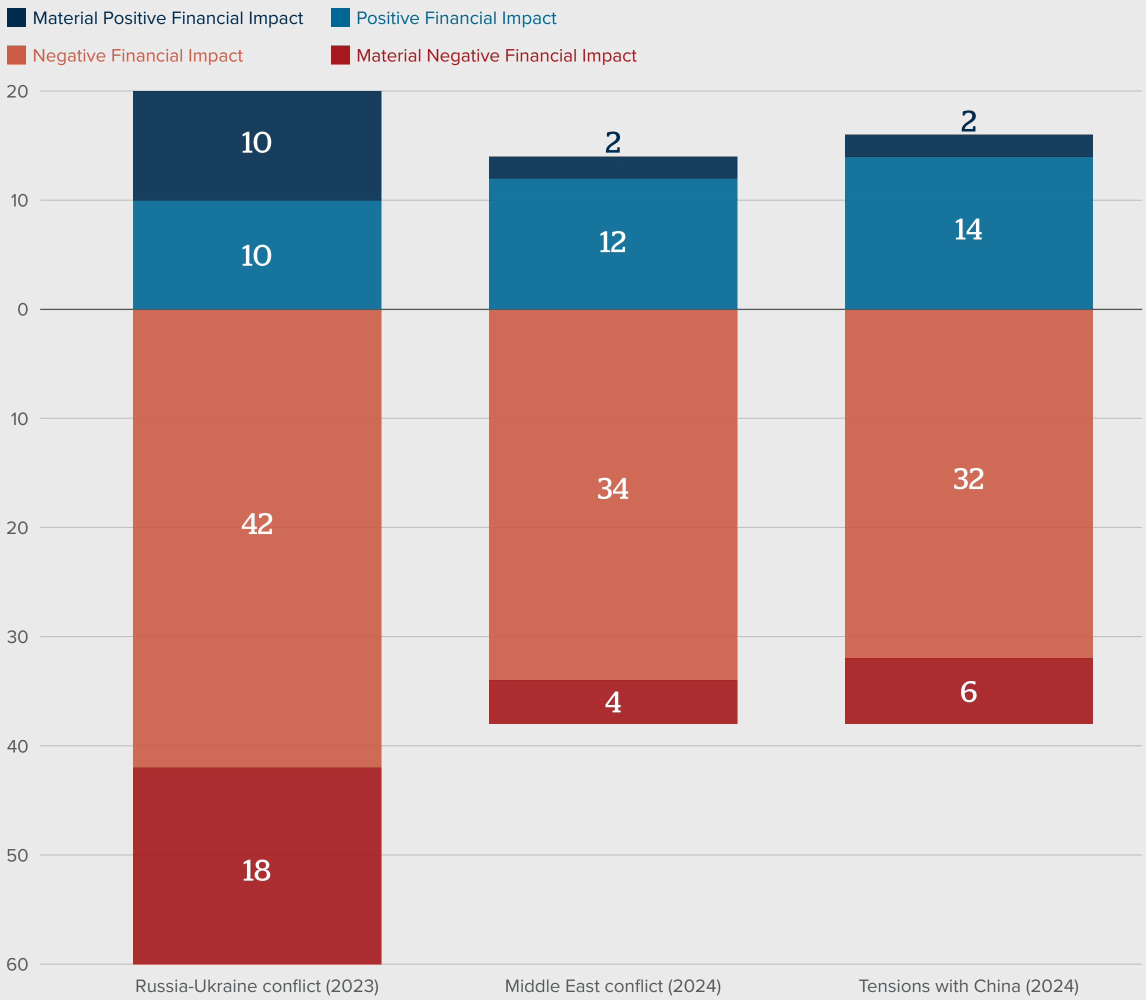


** 2023 value imputed from those saying 'none of the above'*
*** 2024 value imputed from those indicating loss types*
Note: All respondents; for 2020, n = 41; for 2021, n = 33; for 2022, n = 44; for 2023 & 2024, n=50

Of course, for some companies, geopolitical events can lead not only to losses but also offsetting gains. For instance, risks in the Middle East can drive up oil prices, a boon for oil and gas firms; disruption of Ukraine's grain production can drive up food prices, which can benefit commodity traders. "The energy implications [of the conflicts] have benefitted us, and we have been accused of being war profiteers," noted a panelist in the European energy sector.

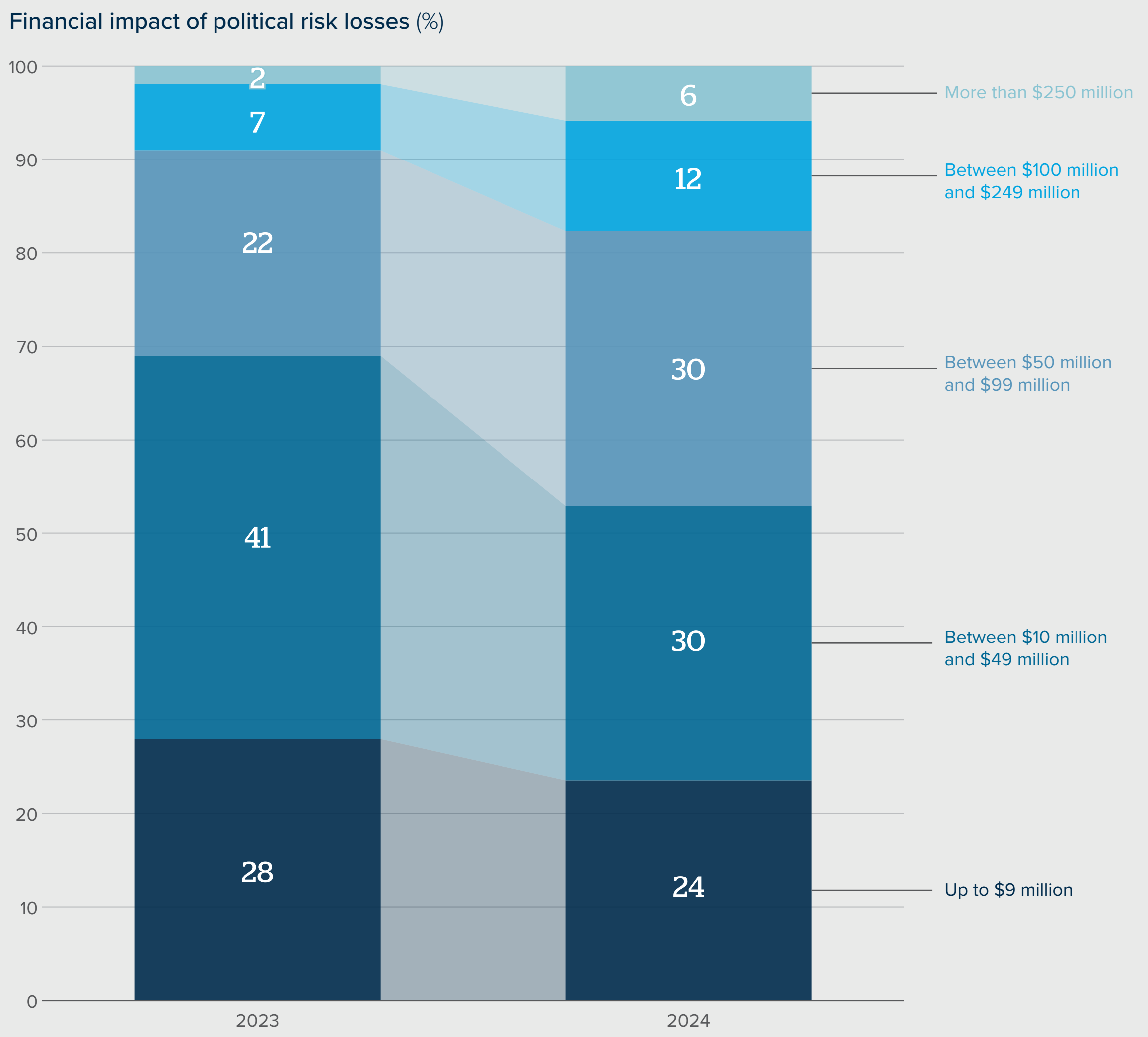
According to our survey results, the conflict in Israel has, as of the first quarter of 2024, had less of an impact on globalized business than the conflict in Ukraine. More than 40 percent of last year's respondents reported a net adverse financial impact of political risk events in Ukraine and Russia, and a striking one in five reported a *material* financial impact, sufficient to require a restatement of earnings. By contrast, for the conflict in Israel, 34 percent reported a negative impact, and 4 percent a material negative impact. For rising tensions with China, the figures were 14 percent and 2 percent respectively.

On balance, what has been the impact of these geopolitical conflicts on your business? (%)



Note: All respondents; n = 50

Zooming in on the question of political risk loss specifically (ignoring any offsetting benefits), the quantum of loss across our sample was surprisingly similar in our 2023 and 2024 surveys. In our 2024 survey, of those respondents who had experienced a loss, and who knew how large that loss was, nearly half (47%) reported a political risk loss in excess of $50 million.



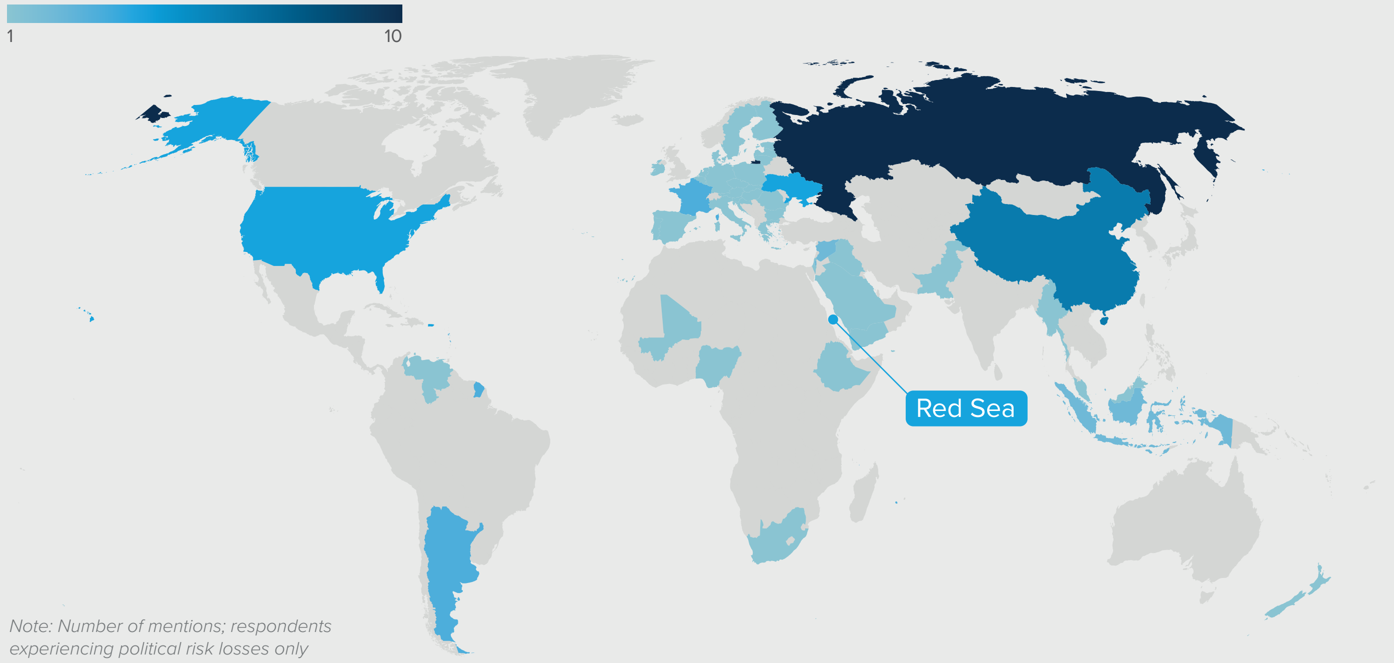
Note: respondents experiencing political risk losses only; 'don't know' excluded; for 2023, n = 46, for 2024, n = 36

Countries of loss

Looking at countries of loss, this year's survey continued a trend that arguably started in 2021. Prior to that year, losses tended to occur in countries that were obviously risky, and that played host to relatively tiny amounts of foreign direct investment, usually in natural resources (countries such as Iran, Libya, and Zimbabwe). From 2022 onward, however, political risk losses began to occur in major economies, such as Russia and India. This year, that pattern continued. Russia, China, and the US were the most-often reported countries of loss (in the US, presumably due to sanctions and export control policies).

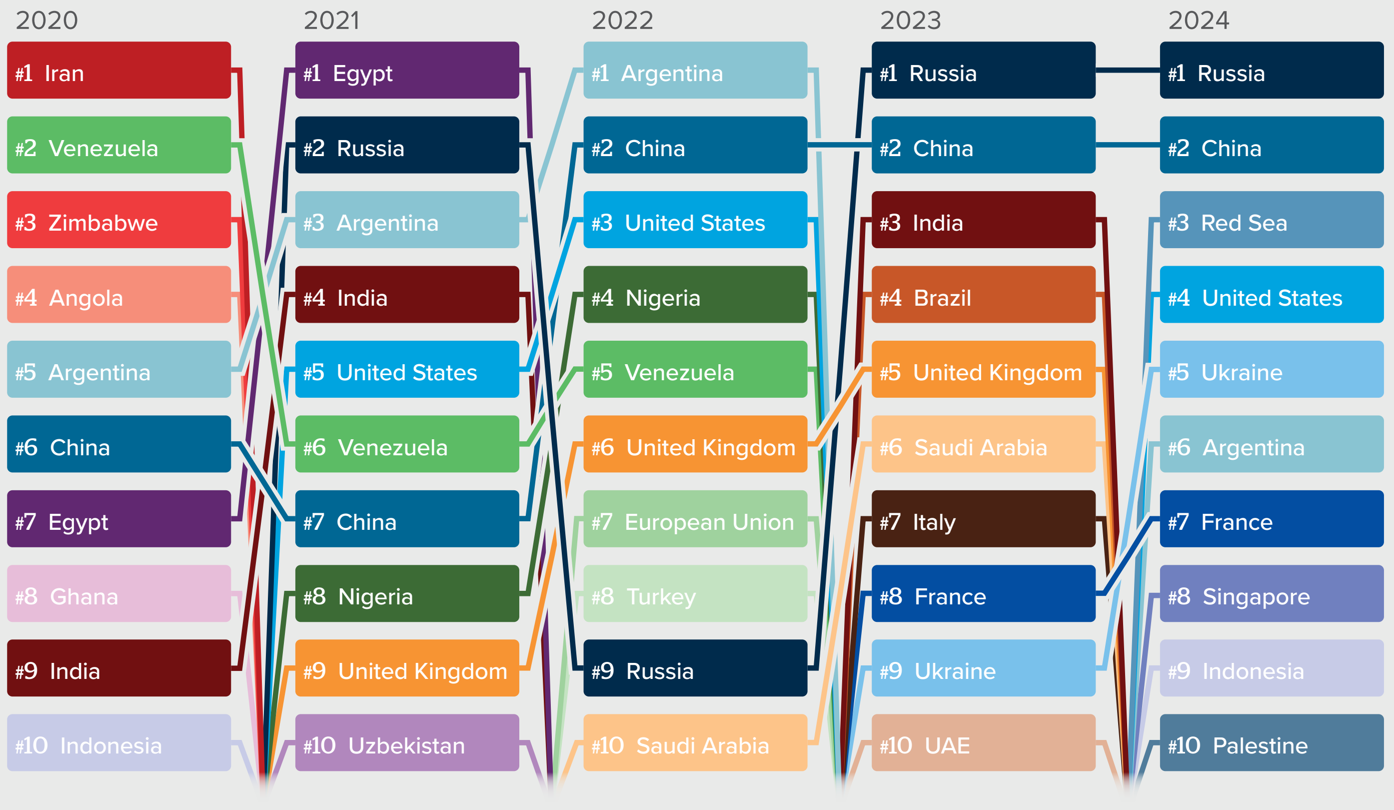
Reinforcing the patterns discussed in the previous section, when we asked for countries of loss, this year several respondents wrote in either "Middle East" or "Red Sea," presumably reflecting the new threats to assets in the world's oceans, and specifically the gray zone attacks on shipping in that region.[x]

Countries where respondents experienced a political risk loss (number of mentions)



Note: Number of mentions; respondents experiencing political risk losses only

Top countries where respondents had experienced a political risk loss (number of mentions)



Note: Respondents experiencing a political risk loss only; ranked by number of mentions

05 Managing political risk

New capabilities and approaches

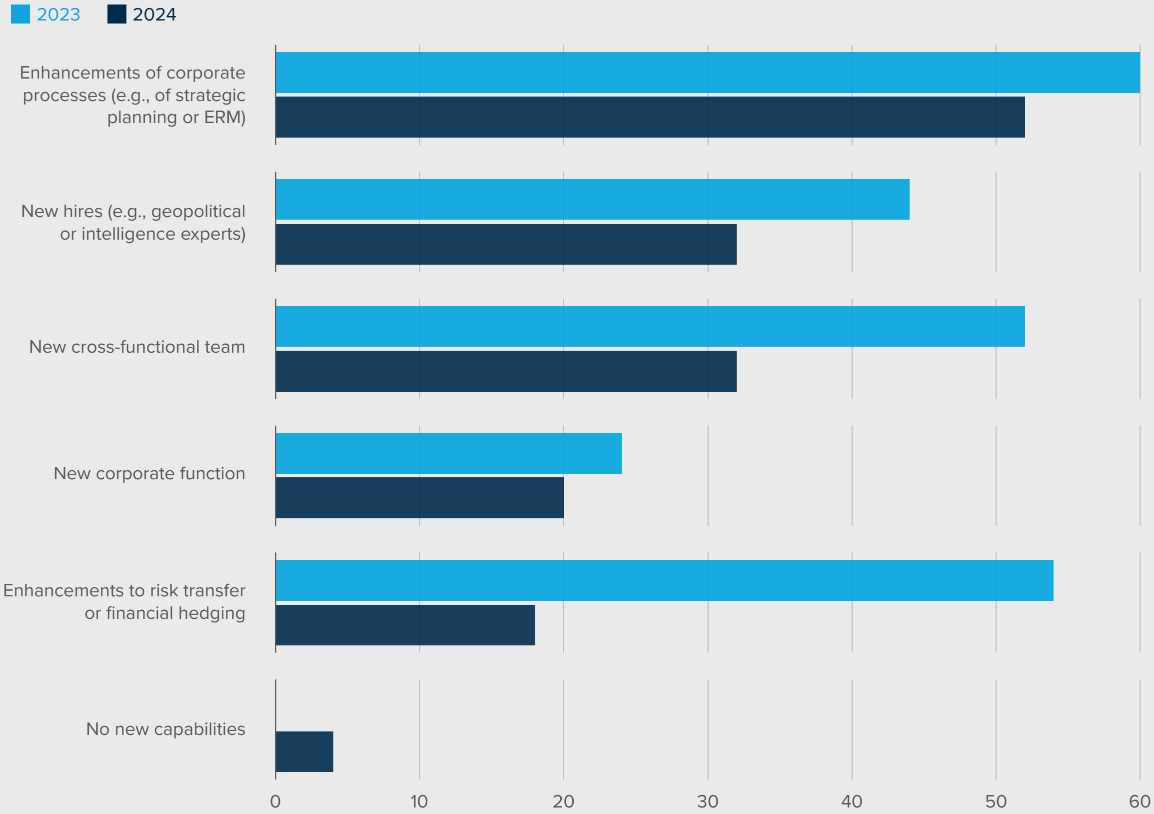
Although the focus of our survey is risks and losses, each year we also ask questions about political risk mitigation and management. For these questions, 2024's results very much continued the trends of 2023. In 2023, 100 percent of respondents reported they had added new political risk management capabilities. In 2024, the figure was "only" 96 percent. Companies appear to have accepted that significant political risk losses are the "new normal" and are working to manage these losses.

"We have only recently established our geopolitical research team," noted a panelist in the development finance sector. "It is a strong but small team, and we are focused on organizing our research and implementing best practices."

What new capabilities were most popular? Here, there was again significant continuity with last year's survey. Enhancements to corporate processes were most popular, at 60 percent of respondents. New hiring was, as with, 2023's survey, another frequently-selected option. In 2024, however, many more respondents reported having stood up new cross-functional teams; and respondents were less likely to report using financial measures such as hedging and risk transfer.

"There is increased awareness of the risks around China, something that was not there in the company before," said a panelist in the healthcare sector. "My colleagues are now talking in an organized manner about the firm's exposure to, for instance, trade restrictions of any kind."

Has your company added any new capabilities to address geopolitical risk? (%)



Note: All respondents; n = 50; "other" not shown

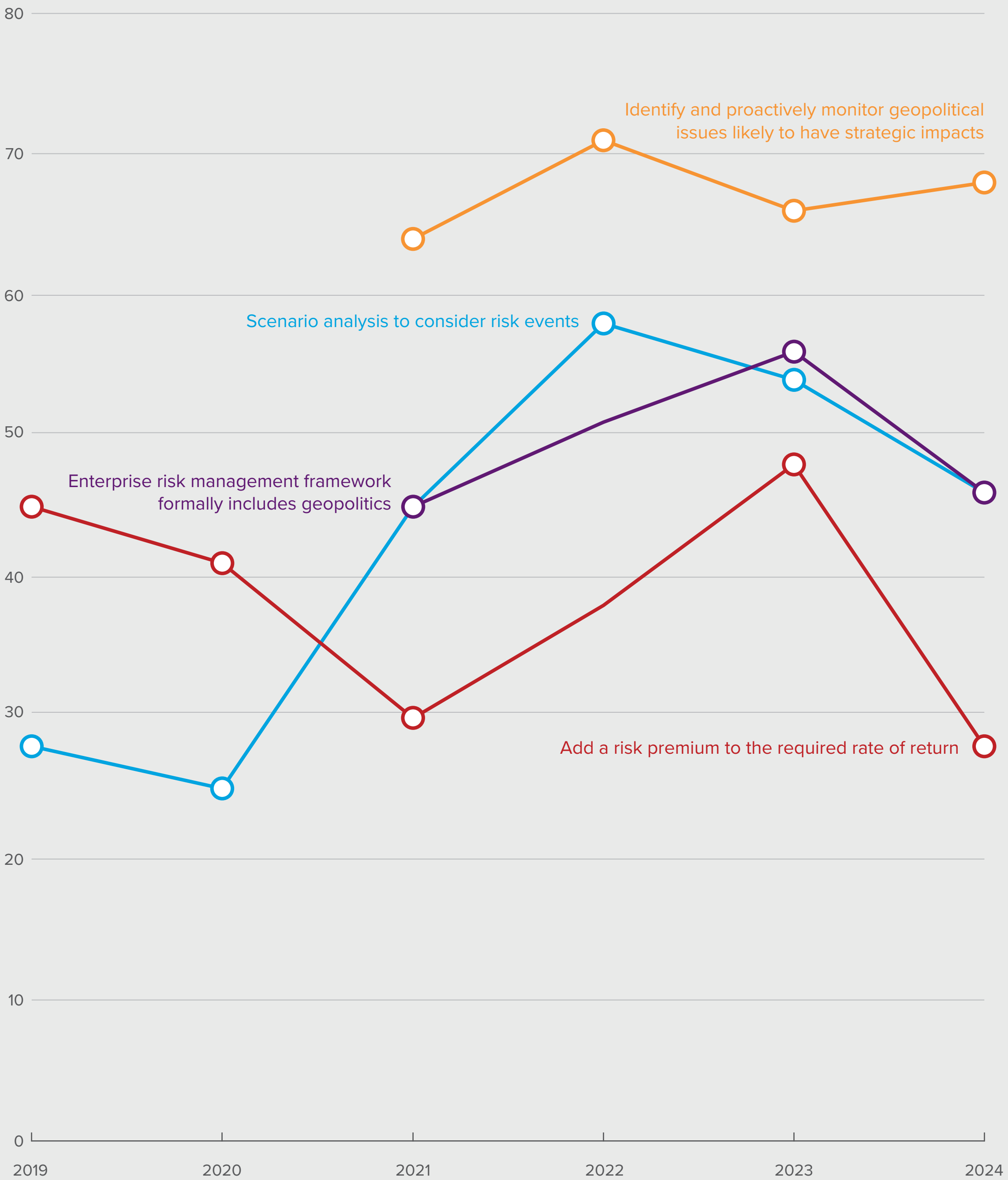
Turning to risk management techniques, proactive risk identification and monitoring continued to be the most popular approach, as it has been since we first asked this question. Scenario planning and scenario-based stress-testing also remained popular, retaining most of the gains seen in recent survey years. Meanwhile, the popularity of assigning a risk premium or adjusting the discount rate fell, reverting to a trend we first saw in 2021.

Financial techniques for assessing political risk have the advantage of being precise, but, as we have noted in previous years' reports, when one fails to forecast geopolitical events accurately, financial assessments may be precisely wrong – which may account for the declining popularity of these approaches.

Among our in-depth interviewees, scenario planning was a particular emphasis. "We are using scenario planning with a shorter time horizon," said a panelist in the energy sector. "Because uncertainty is so high, we do scenarios about the near future, not just ten or twenty years into the future." Another panelist, from the mining sector, said that "we use course of action development and scenario planning based on worst case, most realistic, and ideal scenarios."

"We don't do formal scenario planning here," said a panelist from the US heavy industry sector, "but I did a lot of that at my previous employer and developed a habit of seeing the world in terms of scenarios and contingencies."

Which risk management techiques does your company employ? (%)



Note: Percent of respondents using each listed technique; all respondents; for 2019, n = 40; for 2020, n = 41; for 2021, n = 33; for 2022, n = 44; for 2023, n = 50

06 What next?

Last year's top ten risk list failed to foresee what was perhaps the most shocking geopolitical development of 2023: the conflict in Israel (and the complications for shipping in the Persian Gulf and Israel-Iran tensions that have followed). That said, some of the concerns identified in 2023 (such as the Taiwan question) have gone from concerns of a small minority to concerns of nearly everyone we spoke with.

So, what are our panelists worried about in 2024?

Top risks 2024 (number of mentions)

Below the radar

African stability	Indirect costs of war

Risk 1: Ukraine complications and escalations

It was the top risk last year; it is again the top risk in 2024, mentioned by 10 out of our 12 panelists. Understandably so: as our survey research presented in Section 4 indicated, the Ukraine conflict has caused large political risk losses – as of this writing, larger than either the conflict in Israel or the challenges in China's relationship with the West.

Reviewing corporate filings, Reuters calculated the balance sheet cost of the Ukraine conflict at $107 billion; the Financial Times put the figure at €100 billion for European companies alone.[xi] Those numbers, adjusted for inflation, are equivalent or greater than the losses from some of the most expensive natural disasters in history. And the Ukraine conflict caused more than just write-downs. In addition to the terrible human cost, "the concern is around the influence of the war on oil, [general] prices/inflation, energy sources and the international economy including supply chains," as a panelist from a US food and beverages firm put it.

What complications and escalations are top of mind in 2024? The list was wide and varied. A panelist from a European technology company noted the threat of "disorderly migration from Ukraine and a socially, economically and politically destabilized Eastern Europe," noting that such uncontrolled migration flows could have a drastic impact on "both labor and consumer market dynamics." A panelist in the energy sector worried about "spillovers, particularly from 'hybrid operations'" – discussed in more detail in risk ten, below – while a European manufacturing executive noted that "EU-China and Germany-China ties will worsen if the Russia-Ukraine situation deteriorates further."

The most commonly-reported areas of concern, though, were the risk of nuclear escalation, and the possibility that the conflict would spread beyond Ukraine, into Moldova or other Eastern European countries. "Russia is not expected to attack NATO territory in the next five years but that the risk nonetheless remains and nothing is off the table metaphorically," noted the automotive executive quoted above. "Complacency does exist," warned a panelist from a development finance institution. "Western European leaders should not be complacent."

Risk 2: Year of elections

The title of this risk is an effort to be politic. The majority of our panelists had a very specific concern: Trump II. But before turning to the potential return to office of former US President Donald Trump, what non-Trump concerns were there?

2024 will be, famously, the year of elections. One cannot know precisely how many elections will be held before the year is out (some elections will be postponed; some snap elections will be called), but an oft-quoted estimate is for national elections to take place in more than 70 countries. It is almost certain that more of humanity will vote in 2024 than at any time in the next few decades, due to the coincidence of US, Indian, and European Parliament elections in the same year.[xii] "Developments in international relations don't really affect us," noted one fortunate panelist, in the energy sector. "Our biggest concern is domestic political instability and unexpected election outcomes in the particular countries where we operate."

Some panelists were concerned about the European parliament elections scheduled for June. A US panelist worried about the impact of the polls on "sustainability and 'green' policies in and around the bloc," while a

European panelist expressed concerns about "whether upcoming EU elections will see a rise in populist parties' candidates being elected, which could "make it difficult to form coalitions."

But of course, the main concerns of the panel were about a possible Trump victory in November. Once bitten, twice shy, as the saying goes: "Past experiences, such as the chaos caused by Trump's travel bans, highlight the disruptive impact that political events can have on our business operations," noted a panelist in the oil and gas sector. "Managing this uncertainty and its potential repercussions is currently our most significant challenge."

Other panelists worried about Trump's tendencies towards protectionism; the risk that he would abandon NATO; the strain on "US-China and US-EU ties;" the impact on the US economy; and the impact on US governance (see risk nine, below). "In his first term, Trump linked US national security, economic and trade policy and foreign policy," noted an executive from a European technology company. "This would happen again [if he wins in November], with the risk of trade wars internationally and further use of sanctions."

"Rather than setting a positive standard for emulation that other countries looked to as a guide ... [the US is] now setting a negative example," a panelist from the mining sector complained.

Risk 3: US-China rivalry

This risk is a shift from the phrasing of previous years, when panelists worried about general topics such as decoupling from China or strategic competition. This year, concerns were focused on the escalating US-China rivalry, and in particular, what the US might do in its efforts to retain global dominance.

Nearly a decade ago, Graham Allison proposed the analogy of the "Thucydides' Trap" to explain why rising powers so often end up going to war with established powers ("it was the rise of Athens, and the fear that this instilled in Sparta, that made war inevitable"). The focus of Allison's classical analogy was the modern-day US and China (with China playing Athens and the US playing Sparta) and the lessons the world could learn from history regarding the avoidance of violent conflict.

Allison's work has proved controversial, in part because (as a review of the case studies on Harvard University's "Thucydides' Trap Project" website makes clear) it is sometimes the actions of the established power, seeking to maintain its dominance, that make war inevitable. The case study of the US and a rising Japan prior to World War II quotes such a view: "The United States recklessly cut the energy lifeline of a powerful adversary [Japan] without due regard for the predictably explosive consequences."[xiii]

Many in the US foreign policy establishment would disagree with this take. However, such concerns were clearly on the minds of some of our panel members, as the US once again plays the dominant power while China is perceived to be rising. "China is very concerned about the ongoing US policy – under both parties – of trying to limit China's global economic, political and security influence," a US food and beverages sector executive claimed. "Heightened competition between China and the US could lead to a more restrictive business environment in China, compelling Western companies to reduce their operations in the country," as a US security sector panelist put it.

For many on the panel, China is a key market or a vital source of supplies, so the risks from US-China rivalry are risks not only for US and Chinese companies, but global risks. Panelists from the European and Latin American utilities sectors noted China's important role in the renewables supply chain, with China producing "wind turbines and solar panels" that are "30-40 percent cheaper," as one executive contended. "We have a very clear 'top threat:' the further deterioration of US-China relations," a panelist in the European energy sector said. "We are potentially vulnerable to sanctions and various other restrictions … we may need to completely rethink what role China has in our strategy and operations."

Risk 4: Uncertain climate policy

Risk four is a departure from the other top perils in this list, which are centered on instability, conflict and geopolitical tensions. Risk four is climate policy – and specifically, the uncertainty surrounding that policy, in an environment of diminished international cooperation and a populist backlash against the costs of transition, but at a time when the impact of climate-related disasters is increasingly obvious.

These competing factors have tended to produce a panic/procrastinate cycle of policymaking that makes it very challenging to attract the investment needed to fund the green transition. "The region of greatest political risk to us is the developed world," a European energy company executive commented. "In order to justify investments in renewables, we need to show the return on investment it will bring, and that's difficult if the government incentives are withdrawn or look unreliable." A European technology sector panelist agreed, noting that their company needed to "harmonize our business with current greening demands in the markets in which the firm operates."

A panelist from a US heavy industrial firm was also, as result of policy uncertainty, focused on political risk in the world's richest regions. "It's climate change policy in general that's most significant for us," they said. "Europe is probably the region of greatest risk … actually we make less money in Europe than in North America, but what happens in Europe in terms of climate regulations will affect the US eventually too."

Risk 5: Mismanaging China risk

"The greatest difficulty the firm faces is dealing with China," noted two different European panelists, coincidentally echoing one another's phrasing. Companies are every day being forced to make difficult decisions about their operations in China under conditions of great uncertainty, and missteps can be punishing. A European healthcare panelist claimed: "it is very difficult to engage with China and there is the risk that even the slightest mistake could be a trigger for the company to be excluded from China, which is one of our most important markets."

All of which might tempt one to disengage, but a strategy of disengagement evidently carries its own risks. Another panelist commented: "The CCP wants Western companies active in China to become more Chinese in their operations. Failure to do so on the part of a Western firm could easily incite suspicion, creating market access problems."

All of which creates a constant and delicate balancing act – where companies are torn between home government and host government demands. A technology panelist noted that “Chinese authorities can require foreign firms pair up with domestic firms, but this can be a difficult requirement to balance when other countries have their own concerns and restrictions regarding China’s labor market.”

Other panelists noted that China was grappling with some severe domestic challenges, which create risks for foreign investors. A European automotive sector panelist noted “the Chinese government’s struggles to increase local consumption,” and asked “whether China’s government is doing enough to manage industrial over-capacity.” Meanwhile another panelist worried that this over-capacity was leading to “unfair trading practices” from Chinese competitors.

And then there was the question of Taiwan, which also appeared on last year’s risk list. Most panelists thought a catastrophic scenario unlikely, but recognized the real possibility of “escalating pressure,” as a European member of the panel put it. “Risks include secondary sanctions and having to ‘pick a side’ in wider geopolitical debates and rivalries,” noted an executive in the technology sector.

Risk 6: Middle East escalation

Given that our interviews were conducted during March and April of 2024, it was a surprise that this risk did not appear higher on the list – although nearly all interviews were concluded prior to Iran’s decision to target Israel directly with drones and missiles (in retaliation for an alleged Israeli strike on an Iranian consular building in Syria).

One reason for the relatively low placement of this risk is probably, as discussed in section four, the limited financial impact of this issue to date. Many globalized firms had significant operations in Ukraine or Russia; few had major operations in Gaza. “Where the business would be more directly affected by a geopolitical development, we establish a specific in-house crisis taskforce,” noted a technology sector panelist. “This has not been done so far regarding the current conflict around Israel and Gaza, something indicative of the minor impact of the conflict so far.”

That said, many members of the panel said they were monitoring the situation closely, and expressed concerns about possible escalation. An escalation could have “a destabilizing effect on supply chains, oil prices and potentially other nearby markets,” as one automotive sector panelist put it. An executive from a development finance institution said that “we are concerned about the crisis spilling over from the Red Sea into the Persian Gulf or even Mediterranean,” which could have significant economic impacts in Europe.

There are also other forms of escalation. Two panelists mentioned reputation risk issues. One executive noted that their firm had made donations to charities associated with relief for both Israelis and Palestinians, and been criticized publicly in other Middle Eastern countries as a result (see also the below the radar risks, below).

Risk 7: The next big conflict

After the shocking developments in Ukraine and then Israel, it has become much easier to imagine other zones of tension exploding into conflict. One possibility is the Taiwan Strait, mentioned in regard to risk five, above. Another panelist mentioned the South China Sea, where as of this writing, tensions between the Philippines and China are rising. Another panelist nominated the Korean peninsula, where North Korea recently has been issuing even more alarming threats than usual.

Of course, the number of interstate conflicts has been rising for many years now, mostly in Sub-Saharan African. These less-publicized wars have taken a tremendous toll in human life. But the conflicts in Ukraine and Israel, and the flashpoints mentioned above, are in places that are central to global commerce and supply chains. They are not only political and humanitarian crises; they impact the plumbing of the world economy as well, and businesses must seek to anticipate and manage these conflict risks.

Perhaps surprisingly, the potential conflict zone mentioned by the greatest number of panelists this year was India and its regional neighbors. “Sino-Indian relations have been strained in recent years, with territorial disputes and geopolitical competition exacerbating tensions,” a panelist from a European oil and gas firm claimed. “A conflict between these two nuclear-armed powers would not only disrupt regional stability but also have profound implications for global geopolitics and economics.”

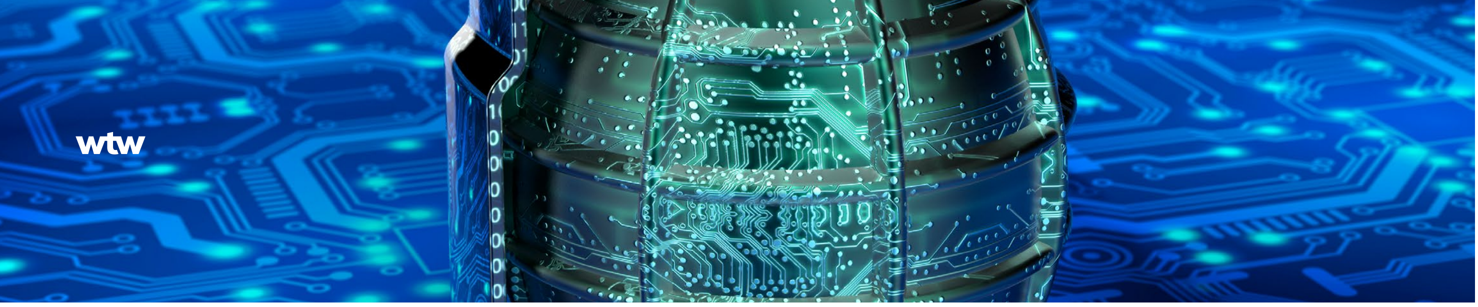
Several other panelists mentioned the rivalry between India and Pakistan – particularly given Pakistan’s current instability, and India’s increasingly vital role as an alternative market or production location to China. “We are watching the deteriorating socio-political situation inside Pakistan and whether there will be a conflict with India,” said an executive in the healthcare sector. A food and beverages executive said, similarly, “Pakistan and India are kept under watchful observation – it is not clear what the trigger point for conflict between the two could be, but that at the same time the conflict risk often runs high, particularly given Pakistan’s security situation.”

Risk 8: Home-market growth slowdown

Some years ago, there was talk of a “post-growth” or “beyond growth” world.[xiv] For many years, there has been talk of businesses being global citizens, not tied to any particular country.

But in an increasingly nationalist world, home markets can matter; and economic growth also matters, particularly when many leading world economies – including China, India and the US – are determined to carry on delivering rapid economic expansion. “Macroeconomic conditions in Latam, and inflation spikes end up affecting various pieces of the supply chain,” noted a panelist from a Latin American utilities company. “This [economic instability] increases local financing costs and creates opportunities for foreign players to come into the market hence threatening local players.”

This concern was mentioned most frequently in reference to Latin America and Western Europe. “The European Union needs economic growth,” a food and beverages panelist contended. “The stagnation of European economies, including the UK, poses a significant challenge,” argued an executive in the security risk management sector.



Risk 9: Institutional decay

This risk could be seen as too broad to be meaningful, or too imprecise to be verified, but there is a general sense that populism and polarization are taking their toll on the institutions of liberal democracy in the West, even as strategic competition is undermining the global institutions that managed crises, maintained geopolitical stability, and kept global commerce humming.

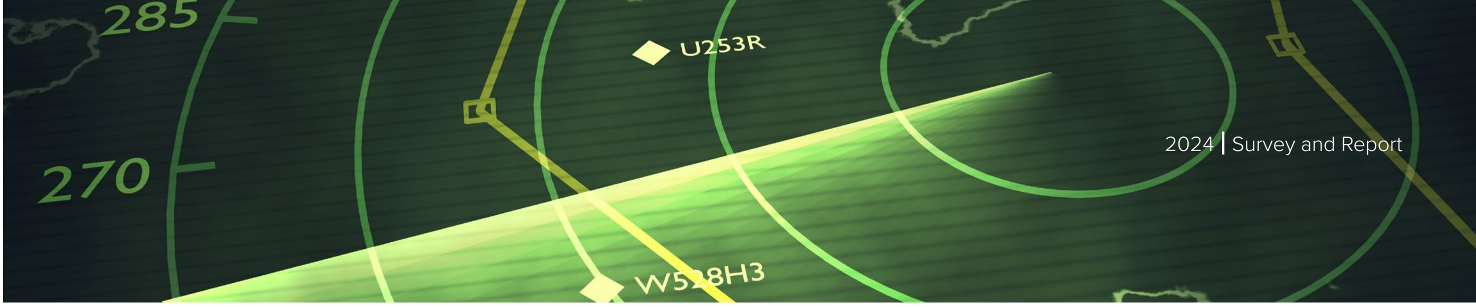
Is the decline real, or a figment of our imagination? Several panel members, at least, were worried. An executive at a European automobile company had specific concerns: "should Trump be re-elected … partisan battling could reach new highs … would the system of checks and balances hold?" A US mining executive complained: "there's much less consensus and consistency these days from one [US] administration to the next. Polarization means each party's main objective is to undo the policies of the other one, so it's impossible to know what the policy situation will be more than a couple of years ahead."

Meanwhile, on the global stage, there was concern about institutional decay as well. A European tech company executive pointed the finger at China and the US: "China is trying to move away from the existing global governance architecture … much of which comes from the post-1945 period and was designed in the West," while the "US commitment to global architecture is uncertain." These abstract notions of institutional decline or the collapsing "rules-based international order" can have direct consequences. "We are having to readjust our global footprint and supply chains constantly," the panelist noted.

Risk 10: Gray zone action

For the past several years in this survey, we have asked about companies' concerns regarding gray zone action or hybrid warfare. In this year's survey, the gray zone hit the mainstream, largely thanks to Yemen's Houthi rebels, who disrupted shipping in the Red Sea. The gray zone featured in our top global trends list (in Section 3), our review of losses (in Section 4), and now here it is on our top ten risk list for the year ahead (although admittedly at the bottom).

"We have thousands of miles of undersea pipeline that are potentially vulnerable to attack like the Nord Stream pipelines," a European energy executive in our panel pointed out. "We're facing hybrid or gray zone threats due to the Ukraine war – incidents of sabotage like the Nord Stream attacks, or cyberattacks, that leave perpetrators with plausible deniability." A Latin American utilities company also worried about cyberattacks, citing operations in Colombia that had been disrupted; a European healthcare company worried about cyberattacks and "if industrial and/or intellectual property protection is lacking and, further, if there are active international [state-backed] industrial espionage schemes."



Below the radar

There were, as ever, many risks mentioned by only one or two panelists that did not make it to our top ten list, despite being insightful, plausible or alarming. One was the risk that Europe-China rivalry would rise, possibly as a result of developments in the Ukraine conflict; another was that dueling standards, for instance in technology, would bifurcate global markets between East and West; another was that firms would be caught out by ESG issues or accusations of “greenwashing.”

Choosing from amongst such perils, our first below the radar threat for 2024 is the **indirect costs of war**. The frequency of global conflict incidents involving nation-states has been rising dramatically in recent years; in the past three years, major conflicts have erupted in regions vital to world commerce and supply chains, including Ukraine and Israel (see also risk seven, above).

In addition to immediate disruption, these conflicts can have indirect costs that may be difficult for companies to anticipate. Two panelists with significant operations in Israel mentioned their key staff being called up to serve in the conflict. An automotive sector panelist noted that funding the conflict in Ukraine – especially if the US withdraws support – will “strain NATO states’ budgets and economies.”

Our last below the radar risk is **African instability**. Since 2020 Sub-Saharan Africa has suffered a coup epidemic, with at least ten coups and several additional coup attempts (compared to less than one coup a year on average for the past three decades).[xv] For most companies in our panel, Africa is not an area where financial exposures are concentrated, so these risks have not risen into our top ten list. But that lack of concern is changing as the situation worsens. A European development finance panelist noted that “the region is being severely impacted by climate change, which in turn is contributing to food shortages, social and political instability, and energy sector crises.” A North American mining executive noted that the coup epidemic was probably far from over, and that countries that have recently had coups “can have them again.”

07 Conclusion

Is this the end of an era? Elisabeth Braw, a senior fellow at the Atlantic Council who has for many years advised us in the development of this survey, recently published a well-received book titled *Goodbye Globalization*. The content is more nuanced than the title, but Braw argues strongly that globalization as it was – without regard to national security alignment – is over.

One could certainly find evidence in our survey results over the past seven years that an era has come to an end. A few years ago, only 35 percent of respondents reported a political risk loss; last year, more than nine in ten did so. In 2018, only 43 percent said political risk in Asia-Pacific was increasing; this year, 70 percent said decoupling between China and the West would strengthen.

And yet, our business panel was unwilling to sound the retreat from globalization. “Russia is an anomaly,” argued a panelist from the US food and beverages sector, whose company had withdrawn from Russia. “We have an ‘all-weather strategy,’ we need to keep positive ties whenever and wherever possible, and to think and plan for the long-term. We try to be a ‘welcome operator’ in all markets.”

“Political risk is acknowledged, but it does not deter operations,” claimed a panelist in the oil and gas sector. “It is viewed as a factor to be managed within our broader risk management framework.”

Will these companies continue to be successful in managing rising geopolitical challenges? Or have they not yet reached the acceptance phase of political risk loss?

Future editions of this survey will tell the story.

End notes

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