



Business Impact of Geopolitics: Macro Trends

KPMG Geopolitics

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KPMG Lower Gulf Limited

With you today



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Stefano leads KPMG's efforts, globally, to help companies and governments deal with today's geopolitical challenges. By joining the dots between the macro political trends and their commercial implications in various sectors, Stefano will help global businesses not only survive but thrive in geopolitical volatility. He will help identify the 'so what' of macro trends through strategic scenario planning, due diligence and geopolitical risk management. With an academic background in international relations, diplomacy and international law, Stefano is eager to bring to the role several years of management consulting practice in Australia, assisting corporate clients, industry associations and government clients navigate complex regulatory environments worldwide.

Bottom Lines for Business

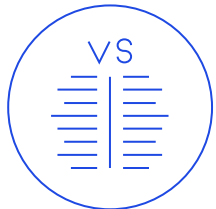
Based on analysis of Eurasia Group's Top Risks for 2022, KPMG identified three overarching Macro Trends that help contextualize the business implication of the main geopolitical events in 2022.



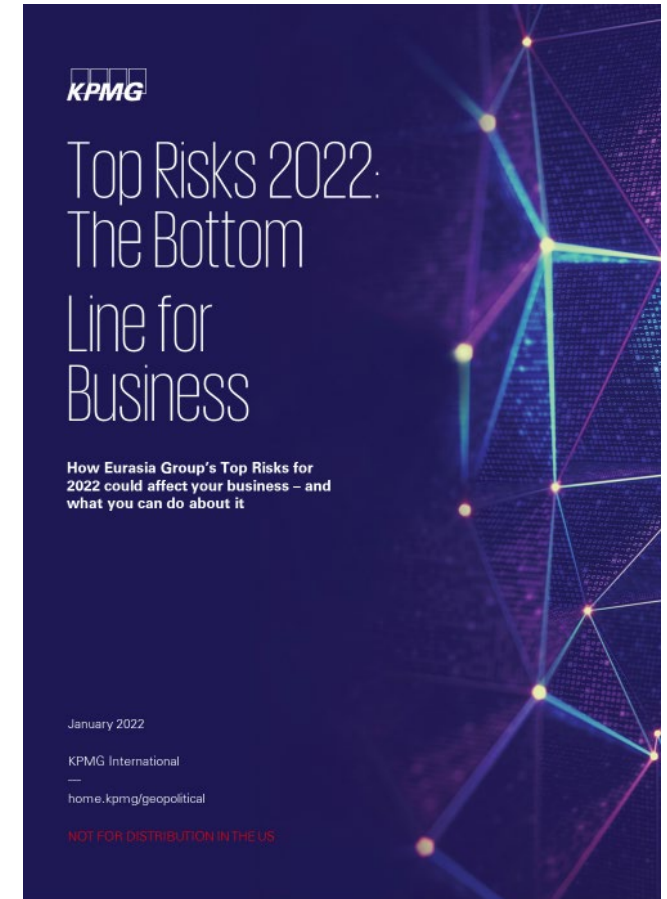
Playing with F-I-R-E



Increased risk of public scrutiny on business



Knowing your risk from your uncertainty



1. Playing with F-I-R-E

Geopolitical competition and widening mistrust between countries is driving the trend toward a Fragmented Interventionist Regulatory Environment (FIRE)

Trade and supply chain disruptions



- **Multilateral trade system continues to be under threat** with countries pursuing mercantilist and protectionist policies in light of growing security tensions in various global hotspots.
- **Covid economic hangovers**, restrictions ebb/flow and new variants tail risk.

A rocky energy transition



- Navigating **short-term rising fossil fuel demand and longer-term net zero pathway** is paramount.
- Without coordinated global leadership, **differing standards**, subsidies, regulations, and carbon pricing mechanisms - including border adjustment tariffs - will prevail.

Technology and cyberspace governance



- Governments are playing catchup as the **speed of technology outpaces existing governance** structures.
- **Cybersecurity** remains a widely anarchic space with state and non-state actors alike waging increasingly brazen attacks on business, governments, and critical infrastructure.

2. Increased risk of public scrutiny on business

Heavily polarized political and cultural pressures, weaponized through social media, means no business is sheltered

It's Getting Political

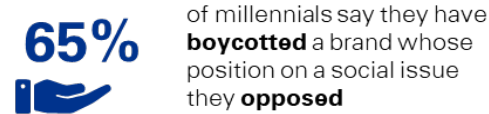
- Risk of consumer boycotts, reputational damage and legislative crackdowns from regulators who perceive certain businesses as acting against national interest.
- Room for political neutrality is shrinking globally, including for business in the UAE. Maintaining a pragmatic diplomatic stance might become untenable if reputational risk or risk of boycotts eventuates.



Multinationals will have to spend more time and money navigating environmental, cultural, social, and political minefields.
#9 Corporates losing the culture wars

Damned if they do, damned if they don't

TOP RISKS 2022

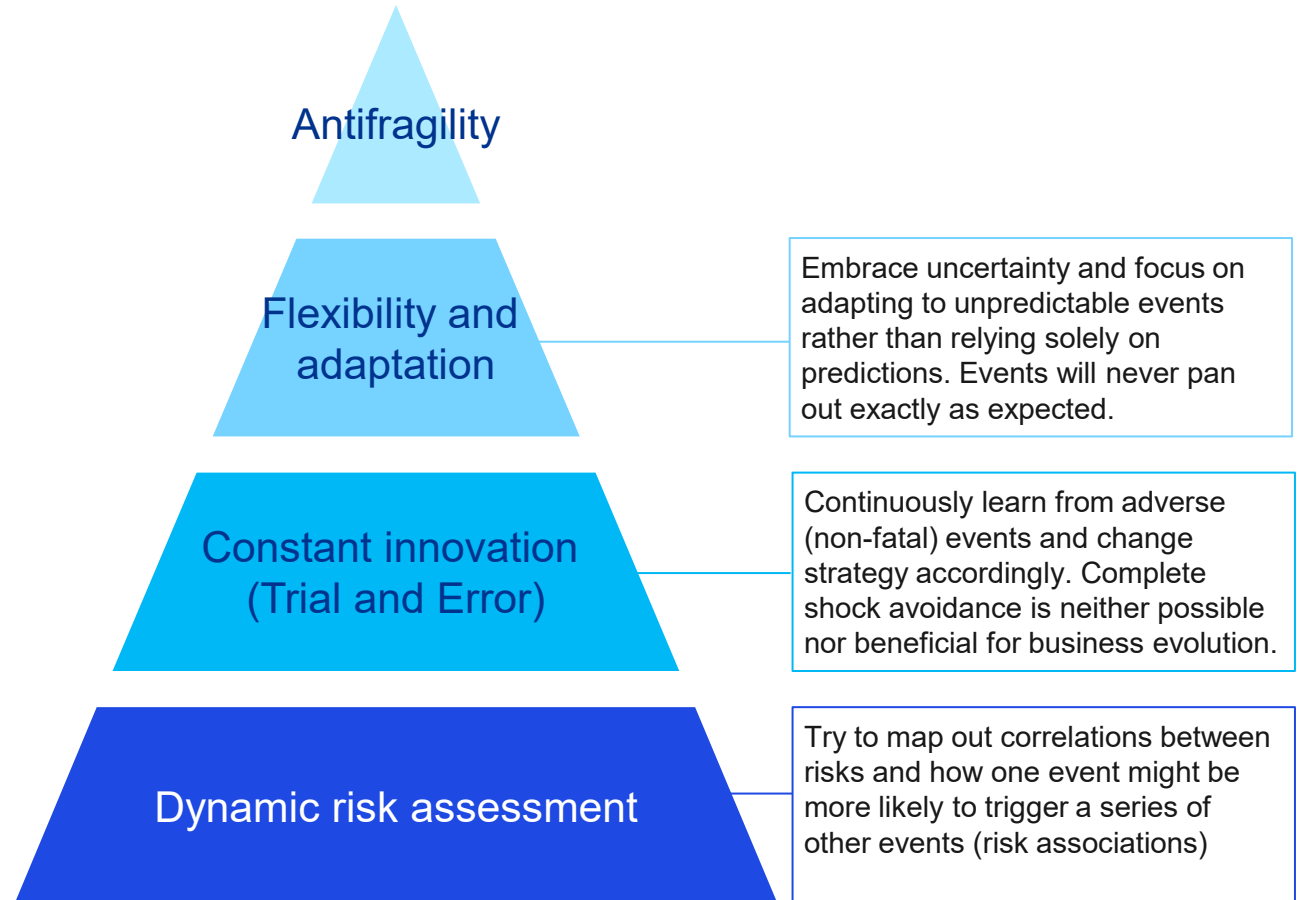


Source: SproutSocial, SWPR, CNBC/SurveyMonkey, Gartner, Glassdoor/Harris

3. Know your Risk from your Uncertainty



- By differentiating between more predictable and definable risks from more complex, seemingly unfathomable, impacts (uncertainties) we can determine strategies that minimise negative impacts and maximise favourable outcomes.
- The aim of the process is about getting comfortable in dealing with uncertainty and preparing your business for it, ultimately resisting, and even improving from the impact of random event.



01

Planning for Geopolitical Risk

Developing Geopolitical Risk Identification
and Prioritization Procedures

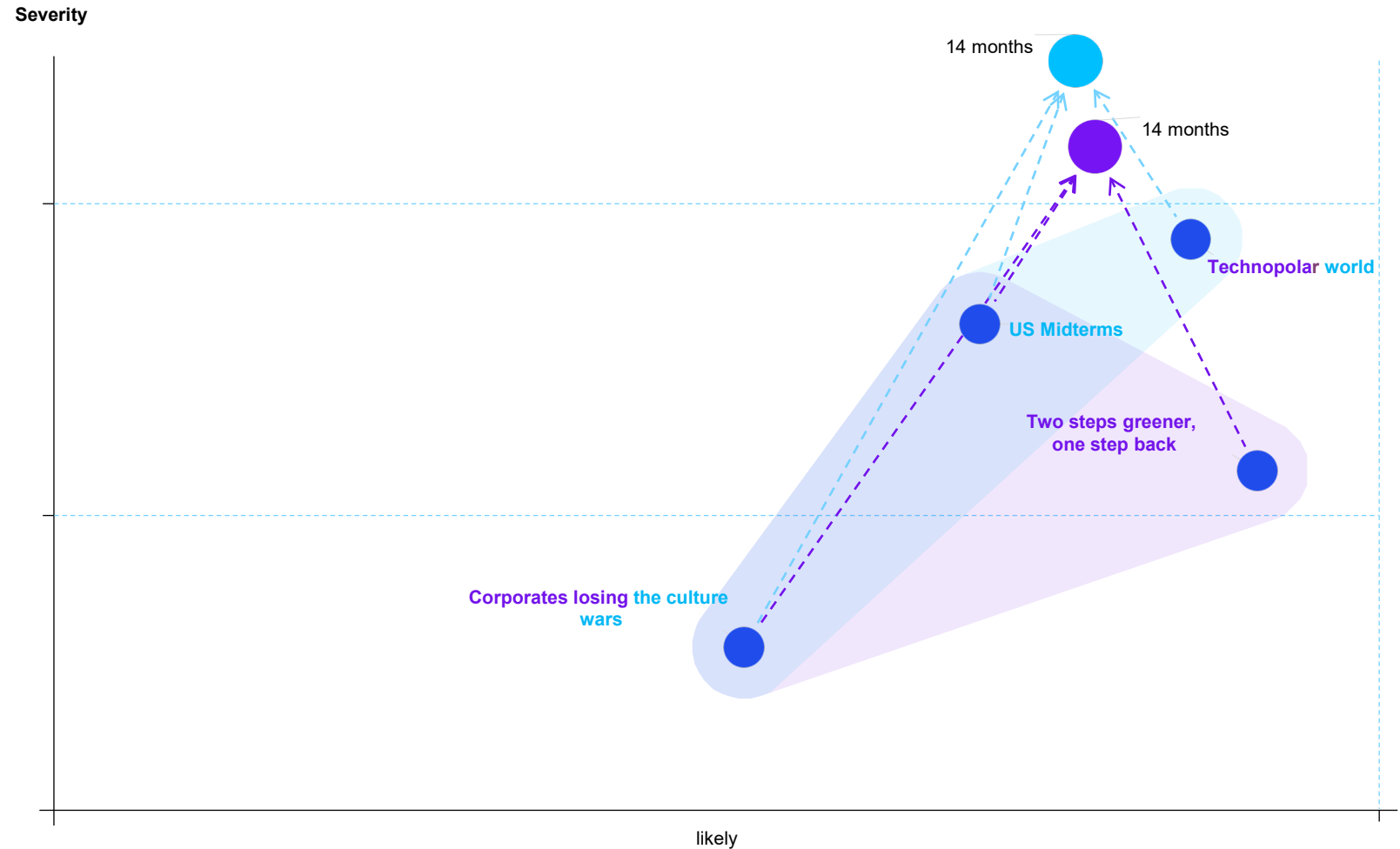
KPMG's DRA of Eurasia group's top ten risks

The analysis identified two potential scenarios (risk clusters, or RCs) that have a more severe impact than any individual risk:

RC1: #2 Technopolar world, #3 US midterms, #9 Corporates losing the culture war.

RC2: #3 US midterms, #7 Two steps greener, one step back, #9 Corporates losing the culture war.

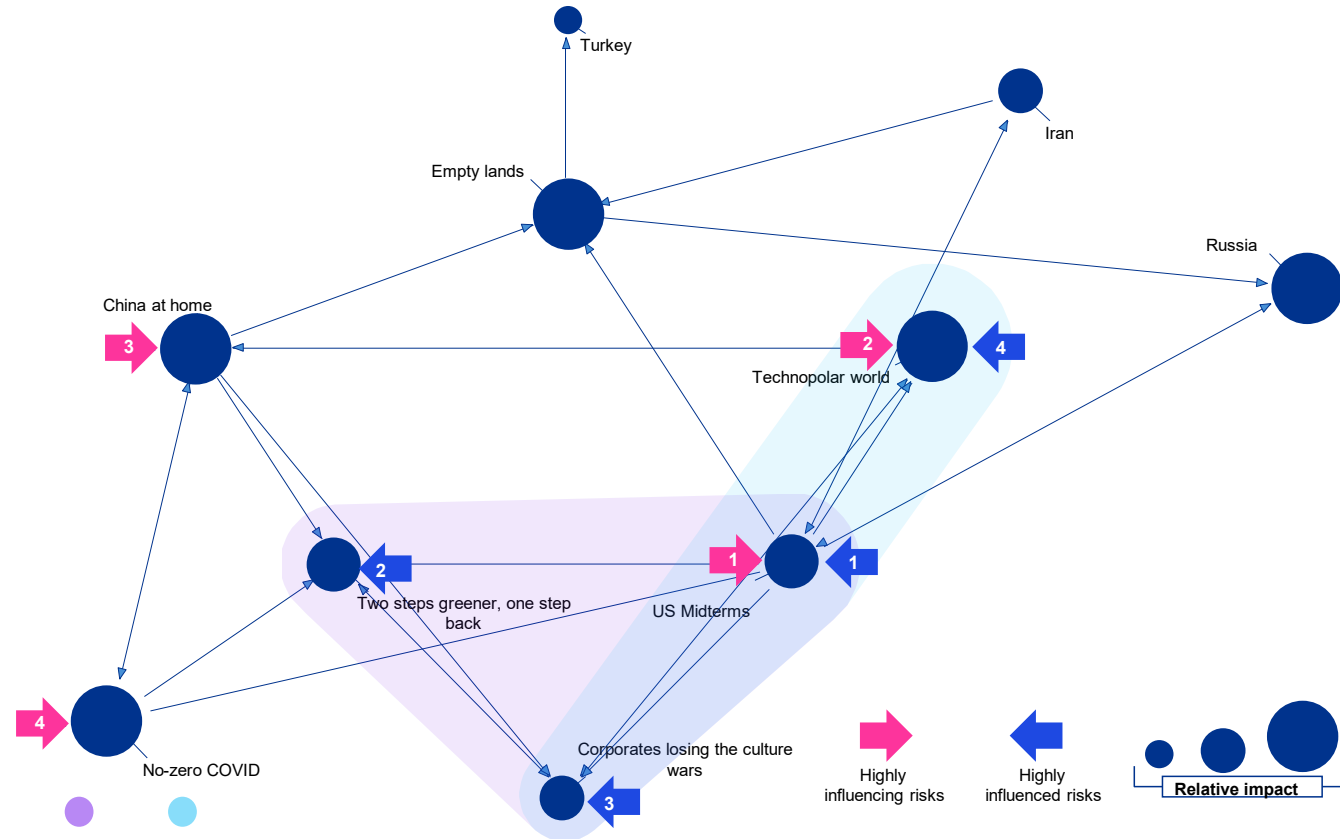
The two strongly overlapping clusters form a 'super cluster' that comprises of the four highlighted risks.



Interconnectedness of geopolitical risk

This graphic shows each risk's exposure to the rest of the network. It ranks how each risk influences, or is influenced by, the rest of the risks by virtue of their non-symmetric and non-linear interconnections.

- This DRA takes a step towards developing risk management processes that anticipate more complex, undefinable events by analysing the contagion effect and interconnectedness of each risk relative to one another.
- For instance, Risk #9 Corporates losing the culture war, has a singularly small relative impact, but the DRA places it within both RC1 and RC2 as a highly connective, and easily influenced risk.
- It may have an unforeseen outside impact to business based on its contagion effect



Navigating Geopolitics in 2022 and Beyond

What else can business do?



Invest in a finely tuned policy radar

with real-time updates and pattern recognition. Companies should be building capacity to measure likelihood, impact and 'contagion rate' of identified policy risks (and opportunities) to business, as well as considering more discrete trends that could deeply impact operations



Develop a corporate diplomacy strategy:

plan for shifting social/cultural trends, scrutiny and regulation. . A corporate diplomacy will need all the elements of traditional foreign policy and more. This includes threat identification, alliance building, cultural adaptation without compromising company values, as well as intelligence gathering.



Get supply chains in order:

improve resilience and reduce shocks. At a high level, there are five key considerations to assist companies as they face more supply chain challenges: Operations should be flexible and resilient; Use technology to maximise efficiencies (digital operations); Fleet management and supply chain networks should be responsive to increasing customer requirements; Collaboration/supplier partnerships, and ongoing risk monitoring are all needed to de-risk the supply chain.



Social license to operate:

helping business win hearts and minds. Building social licence involves gaining legitimacy, credibility, and ultimately trust through mutually beneficial relationships with citizens and key stakeholder groups. Improve your range of capabilities and tools to listen deeply to stakeholders and tap into public opinion - not just the views of influential groups but the silent majority and fringe entities too.



Increase climate IQ and plan for the energy transition:

managing business exposure to climate risk is a board level priority. Assess your exposure to physical risks of climate hazards as well as the economic impacts of the transition to a low-carbon state on a bespoke or automated basis.



Think the unthinkable:

Use a panel of experts with the broadest perspectives to design possible extreme scenarios (positive and negative). How do these scenarios affect your business from financial, non-financial and reputation perspectives? Test and fine-tune policies and mitigation procedures - using 'Red Teams' (i.e., individuals separate from the process) to constructively challenge input.

Q&A

Thank you

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