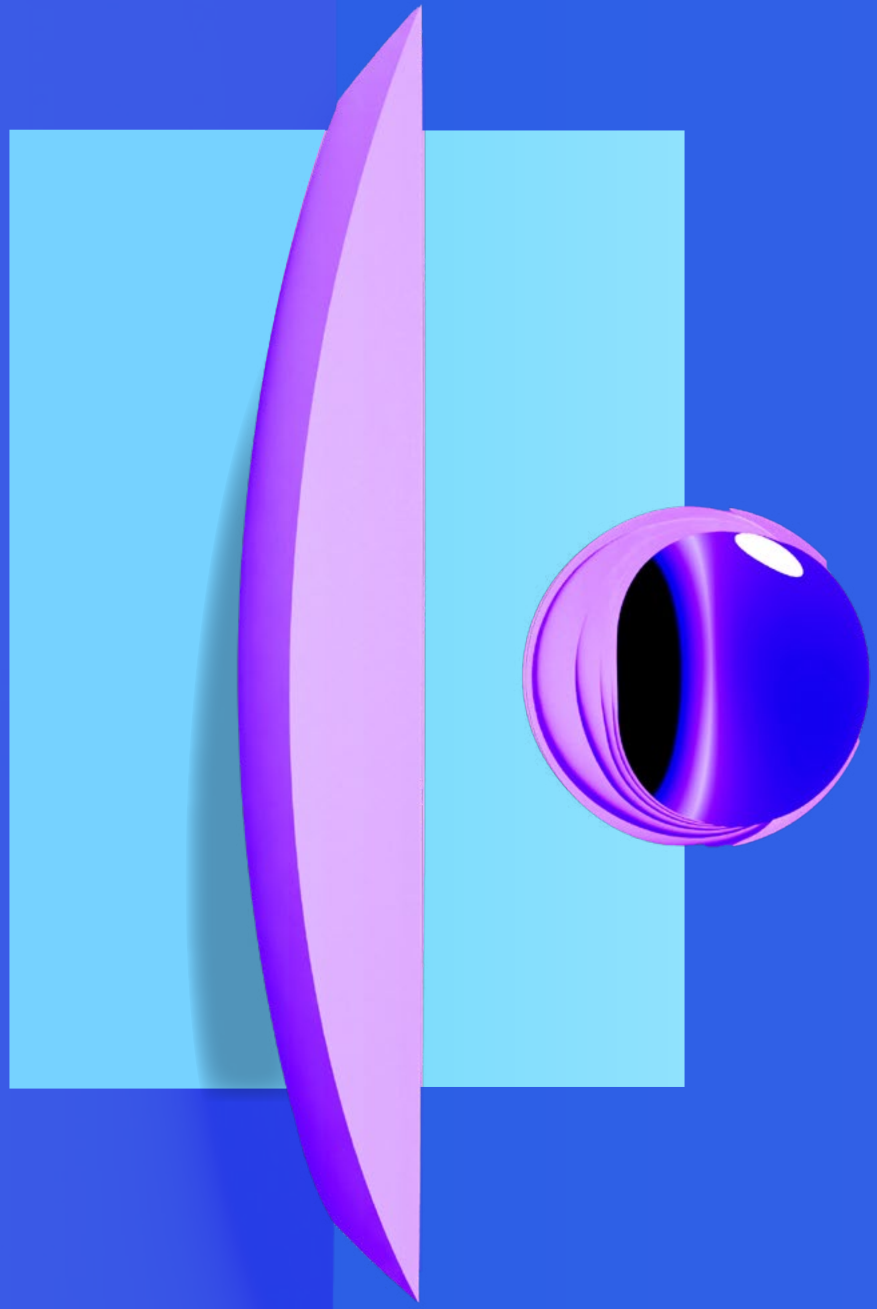
KPMG

Top risks forecast

Bottom lines for business in 2024 and beyond.



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Introduction

Our latest global CEO Outlook saw geopolitical risk become the number one concern on the CEO agenda as a major risk for growth planning and expectations. For several decades, businesses have been responding to geopolitical changes rather than actively anticipating them. This was appropriate as geopolitical fluctuations were most often temporary. Today, there is evidence of structural change emanating from geopolitical turbulence as geopolitical alliances rewire, affecting the architecture of the global economy. It is now more urgent than ever for business leaders to anticipate geopolitical changes.

Each year, the Eurasia Group (EG) releases Top Risks, their forecast of political risks that they believe are likely to play out over the upcoming year. In this report, we assess the dynamic relationship between EG's risks, broader geopolitical trends and their impact on global business.

Drawing insights from our alliance partners at the EG, we aim to provide global business leaders, from board-level and C-suite stakeholders to functional leads and department heads, with a broad understanding of the dynamic nature of geopolitical risks and trends over the next 12 months, and equip them with actionable strategies to assess and mitigate exposure.

EG describes 2024 as the "annus horribilis" of geopolitics — a year of reckoning for the G-Zero world, the multipolar moment where no single country or group of countries can provide global leadership and generate consensus on how the rules of the international order should work. According to the EG report, we are in the middle of a geopolitical recession marred by weaknesses in global governance, rise of conflict, and challenges to multilateralism and free trade.

Global trade and investment patterns are shifting — the future of global trade, supply chains and economic integration is becoming more dependent on national security priorities and increased policy interventions.

In the immediate future, geopolitical developments are likely to continue to influence supply chain strategies, shift investment destinations and push up costs for companies. All of this makes inflationary pressures stickier and more structural than the markets expected. The global regulatory environment is growing more complex and fragmented, meaning that business leaders should consider spending more time, money and effort to steer their companies through uncharted waters. This report aims to:

- Provide insights on the geopolitics that matter and the trends which may impact business strategy, supply chains, people and operations. The report's analysis identifies the three most critical trends for businesses, known as 'bottom lines'.
- Understand the geopolitical drivers that may affect major industry sectors, including Consumer & Retail, Energy & Natural Resources, Financial Services, Government, Infrastructure, Industrial Manufacturing, Life Sciences, and Technology, Media & Telecoms.
- Highlight actions organizations can take to prioritize, assess, monitor and actively manage geopolitical trends and their possible business impact.

01 Trade policy restrictions

Global trade and investment patterns are shifting. The future of supply chains and economic integration is becoming more dependent on national security priorities and increased policy interventions.

3,000

Global trade restrictions imposed, nearly tripled since 2019.

Source: International Monetary Fund. "World Economic Outlook" (April 2024).

02 Vulnerability calls for operational resilience

Conflict escalation is on the rise as historical collective security arrangements have become disrupted by a lack of global leadership. Despite this reality, few corporations have implemented resilience strategies.

12.9%

Global GDP impact of conflict on world economy.

Source: Institute for Economics & Peace, "Global Peace Index 2023: Measuring Peace in a Complex World", Sydney. (June 2023).

03 AI governance gaps

The global regulatory environment for emerging technology is growing more complex and fragmented, meaning businesses may have to spend more time, money and effort steering their companies through uncharted waters.

5x

AI investment has increased fivefold between 2016 and 2023.

Source: Standford University. "Artificial Intelligence Index Report 2024" (April 2024).

About the authors

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Italian-born, Swiss-French by education, and Australian by migration and military service, Stefano leads the global geopolitics function, providing insights on the business impact of geopolitics, to help member firm clients address political risk and find opportunities in a volatile world. Stefano has an academic background in international relations, diplomacy and international law. He started his global role in 2022 after spending eight years in Australia, assisting corporates, industry associations and government clients with policy and government affairs strategy worldwide. Before joining KPMG, he worked in multilateral diplomacy at the delegation of the EU to the UN in Geneva and as an academic researcher in international trade law.

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Michael is a manager with KPMG in the US and leads the geopolitics functions' efforts to raise internal capability around geopolitical risk, supporting engagement teams to build their own service offerings and providing tailored one-to-one client briefings. After three years with KPMG International, he returns to the US firm where he advises multinational clients on international trade matters including tariff mitigation, export control, sanctions compliance and business operations support. Prior to joining KPMG, Michael worked in research at the Chicago Council on Global Affairs in his hometown.

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Dr. Merriden Varrall is the lead for geopolitics at KPMG Australia. In this role she helps businesses understand and navigate the complex global geopolitical environment. Merriden provides business-related insights into global, regional and local geopolitical trends and works with clients to develop strategies to identify and to help mitigate risk, and to increase opportunities. A former UN diplomat based in China, Merriden is a sought-after commentator on geopolitics, East Asia, China's foreign policy and Australia's bilateral relationship with China. From 2014-2018, Merriden was director of the Lowy Institute's East Asia program. Before joining the institute, Merriden was the assistant country director and senior policy advisor at United Nations Development Programme, China, where she focused on China's international development cooperation policy.

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Christy Lorgen leads KPMG in Norway's Corporate Intelligence Unit, assisting clients in identifying and mitigating third-party and reputational risks arising in transactional and other contexts. In her global role, Christy also leads KPMG's efforts to provide geopolitical analysis to clients in the EMEA region. Christy has focused much of her career on Africa, a continent she covered for many years with Kroll and K2 in London and in Oslo. Now her work with the Corporate Intelligence practice at KPMG is global in scope, covering many jurisdictions and industries. Christy and her colleagues on the Corporate Intelligence team at KPMG come from varied backgrounds, including police, law, social sciences, and engineering. They speak 11 languages and have extensive international experience.

Contents

Overview

International trade flows are forecast to grow at

3.3%

in 2024 year on year.

As described in EG's Top Risks report, geopolitical tensions and uncertainty are weighing on global growth and posing risks of further supply shocks that would reduce growth and feed persistent inflation. As argued in top risk #8, macroeconomic policy and political constraints could mean that the options for growth stimulus are limited in the medium term. The picture in the report is a cautionary one. Even if some of the major risks touted might not materialize, averting major impacts on global commodity prices, prospects for global trade and investment remain vulnerable on the back of ongoing conflicts in Europe and the Middle East, slowing growth in China, the challenges posed by ongoing competition in US-China relations (although recent stabilization efforts should avert a major confrontation), and the prospect of a momentous US election that could bring about substantive changes in global security structures and economic/financial integration. In this geopolitical context and despite declining inflation, EG's assessment indicates that central banks in developed markets are likely to remain reluctant rate cutters in an environment with persistently strong wage growth and clearly identifiable upside risks to inflation. From a business perspective, this means that dominant economic forecasts remain extremely vulnerable to tail risks that can be triggered by a volatile geopolitical environment. As such, staying on top of major geopolitical trends, distinguishing fact from fiction and signal from noise is now an imperative for most global companies.

At the macro level, there are three major trends likely to impact business operations in the medium- to long-term: the complexification of international trade, the rise of global conflict in a G-Zero world and the growing gap between technological developments in artificial intelligence (AI) and its regulation.

Terms like "deglobalization" and "slowbalization"[1] were coined in recent years to conceptualize a new era of trade. While these phrases may effectively capture the growing complexity in global supply chains and receding trade liberalization since the global financial crisis in 2008, they can also oversimplify a much more nuanced reality. In fact, international trade flows are forecast to grow at 3.3 percent in 2024 year on year (up from 1.1 percent in 2023).[2] In addition, the average distance that merchandise travels from country of origin to destination has increased over the past two decades — reaching a historical peak of nearly 5,000 km on average in 2022 — running counter to the perceived regionalization of trade relationships.[3] What is changing though, is the decentralization of trading partners and the tendency to reduce concentration risk for the sake of resilience. Many countries and territories have made it a priority to diversify trade partners — particularly away from those less geopolitically aligned — and restrictive trade policy has been the primary means to that end. Countries imposed about 3,200 new restrictions on trade in 2022 and about 3,000 in 2023, up from about 1,100 in 2019.[4]

[1] Morgan Stanley, "Slowbalization: Rethinking Global Supply Chain" (July 25, 2022).
[2] European Central Bank, "Global trade in the post-pandemic environment" (February 8, 2024).
[3] DHL, "DHL Global Connectedness Report 2024" (November 23, 2023).
[4] International Monetary Fund, "World Economic Outlook Update: Moderating Inflation and Steady Growth Open Path to Soft Landing" (January 30, 2024).

The proliferation of tariffs, sanctions, export controls and import requirements means that multinational companies, which once enjoyed predictable trade regimes, must now reassess their operations and employ corporate resilience measures in the face of increasing trade regulation.

From a physical security standpoint, the rise in global conflict may also place additional burdens on companies, particularly those that have not had to focus on crisis management and contingency planning in the past. Hotspots of violence, once held at bay by collective security arrangements led without significant challenges by US global military involvement, have now become sources of disruption as global leadership wanes, international security rules are challenged and cooperation fragments. Despite this reality, few corporations have implemented a resilience strategy for such dramatic disruption, even fewer a dynamic playbook with risk and resilience embedded. Going forward, as geopolitical shocks continue to erupt, the ability to protect people, assets and capital will be an important element of corporate resilience.

And finally, as the central investment priority for many firms, AI will inevitably be a key agenda topic in most sectors for years to come. However, the motivation for AI policy remains scant with only embryonic attempts to establish a harmonized global regulatory framework for AI, i.e. the UN high-level advisory body on AI. Instead, major jurisdictions are progressing their own domestic regulatory approaches with the EU pioneering the first comprehensive AI legislation in 2024. This leaves companies in the hot seat in terms of building internal safeguards against possible negative externalities, while making the most of the huge opportunity the technology can bring in terms of productivity, efficiency and competitiveness. Cyber threats pose obvious risks, and safeguarding them should remain a priority, but maintaining a human-centric view of AI, in which employees and consumers feel safe engaging with a company is likely to also be essential to meaningful adaptation.

Bottom line 1

Trade policy restrictions

In response to geopolitical uncertainty, many governments have reoriented their economic relationships along ideological and geopolitical fault lines. Recent analysis from the UN shows that global trade patterns have a taken a geopolitical turn; many countries and territories are moving away from trading with “geopolitically distant” countries and turning more toward ideologically aligned trading partners.

They incentivize this policy trend by raising restrictive trade barriers against "geopolitically distant" countries.[5] In order to comply with these geopolitically motivated trade barriers while maintaining operations, businesses that rely on thousands of cross border shipments a day are expected to upscale compliance functions while simultaneously making sweeping changes to their supply chain structures.[6]

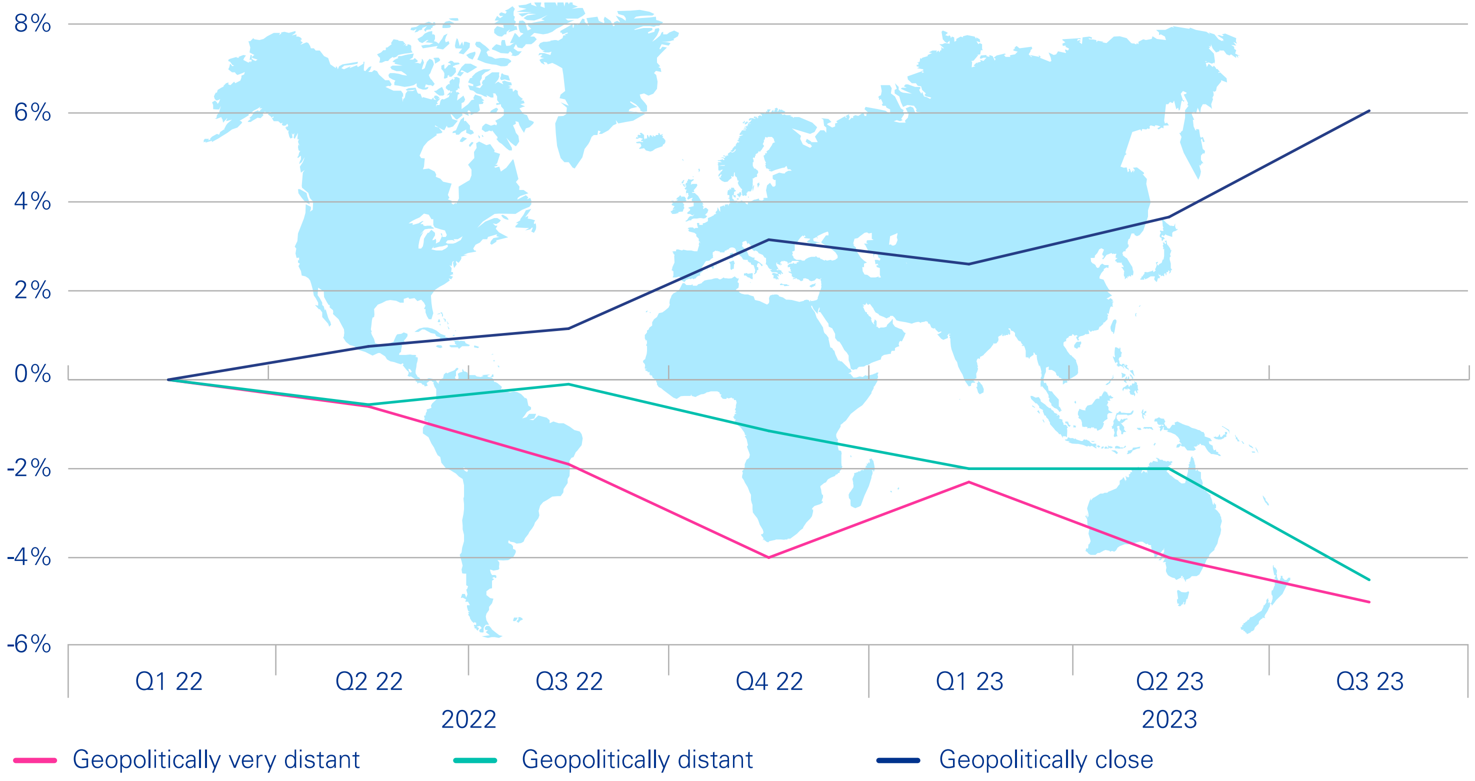
Disruptive trade measures, enacted by government to incentivize "geopolitically close" trade, tends to fall in three broad categories:

1. Tools used in strategic competition between economic powers (e.g. de-risking policies in strategic supply chains, for example export controls on semiconductor technology or critical minerals).
2. Conflict-driven actions (e.g. western sanctions against Russia).
3. Values legislation used to influence a certain behavior from non-complying entities (e.g. EU Corporate Sustainability Due Diligence Directive, Carbon Border Adjustment Mechanism (CBAM)).

Trade restrictions from each of these groups have increased in recent years, forcing corporations to constantly reconsider their trade strategy and supply chains as a result.

Global trade patterns take a geopolitical turn

Average change in bilateral trade with each group since Q1 2022



Source: UNCTAD calculations based on national statistics.

Note: Bilateral trade is categorized into 3 groups according to the geopolitical closeness index utilizing UN voting records as a metric. The figure then plots the change in the trade share of each of these groups taking Q1 2022 as basis. Data is weighed averaged and excludes intra European Union. Data excludes services.

[5,6] United Nations, "Global Trade Update" (December 2023).

Strategic competition

- US section 232/301 Import Tariffs
- Export and End-Use controls

Strategic competition: Trade policy has become a primary lever by which economic rivals can engage in strategic competition with each other. Tariff rates, export controls and import bans have become commonplace in developed economies, having nearly tripled since 2019 to almost 3,000[7], with the trend set to continue throughout 2024. As the race for emerging tech supremacy heats up, trade restrictions and industrial subsidies will continue to play puppet-master to global supply chains, and business could be caught in the middle.

Conflict-based measures

- Sanctions on Russian government companies and individuals
- US-EU Energy Embargoes

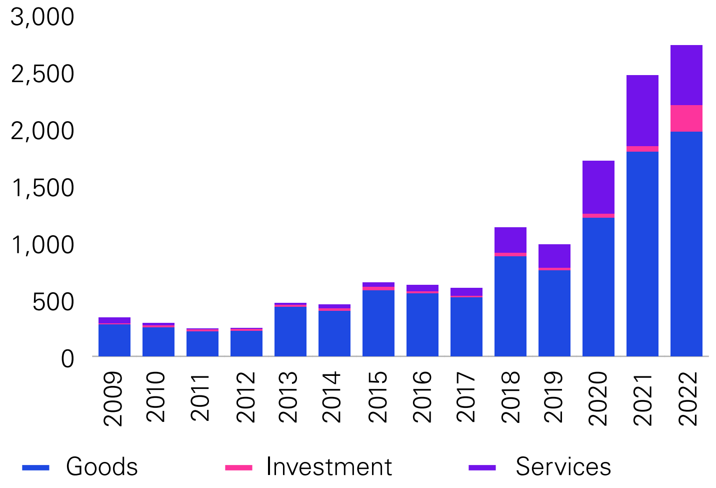
Conflict measures: Last year's headline conflicts led a proliferation of security-based trade measures that, intentional or not, had a direct impact on trade outside of the regions directly targeted. Economic sanctions and shipping embargoes employed by western states against Russian aggression in Ukraine forced global supply chain reorientations across disparate sectors (energy commodities, staple commodities, critical minerals used in tech and energy sectors). With the rise in global conflict becoming the norm, correlating sanctions regimes could trend upwards as a result.

Values-driven legislation

- Uyghur Forced Labor Prevention Act
- Carbon Border Adjustment Mechanism

Values legislation: There has also been a noticeable uptick, particularly in western countries, of sustainability legislation that restricts trade with partners that do not adhere to certain standards. Climate initiatives like the Carbon Border Adjustment Mechanism (CBAM) and forced labor directives that target human rights violations are both examples of measures that increase third party supplier enforcement. The Uyghur Forced Labor Prevention Act, for example, has led to an exponential increase in vessels targeted for investigation, held at the border, or denied entry into the US outright.[8]

Global trade restrictions imposed



Source: Global Trade Alert and IMF staff calculations.

[7, 8] IMF Blog, "The High Cost of Global Economic Fragmentation" (August 28. 2023).

Bottom line 2

Vulnerability calls for operational resilience

A pervading sense of mistrust characterizes today's geopolitical landscape, leading to some countries and territories to be less willing to cooperate on matters of global peace and security. This has weakened the institutional power of multilateral organizations like the United Nations (UN) and the World Trade Organization (WTO) as members choose to safeguard their own national interests over consensus-building diplomacy.

In the UN, the number of Security Council resolutions have been declining dramatically each year, from a ratio of 0.43:1 in 2020, to 0.31:1 in 2022.[9] This may either be a result of more instances of conflict or a factor of less cooperative supranational government, but in either case, conflict resolution is not keeping up with trends in warfare. Conflict is on the rise. The G-Zero world means that the collective international peace and security architecture is no longer effective at keeping old and new tensions at bay:

- In 2022, 91 countries were involved in some form of conflict, compared to 58 in 2008.[10]
- The economic impact of conflict on the global economy is estimated at US$17.5 trillion in purchasing-power parity (PPP) terms, or 12.9 percent of total global GDP, translating into US$2,200 less economic output for each person on the planet.[11]
- By the end of 2022, more than 108 million people worldwide were forcibly displaced because of persecution, conflict and violence. This is an increase of 19 million compared to 2021 and constitutes the largest single increase between years since UN High Commissioner for Refugees started taking statistics.[12] Importantly, these figures do not include the impact of ongoing conflicts in Ethiopia, Sudan and Gaza.

Resources conflict might escalate, especially as we are heading toward more fight for critical minerals (EG Top Risk #7). For example, tensions between Venezuela and Guyana will remain high as territorial disputes remain unresolved on Guyana's territory and offshore oil reserves. Ethiopian authorities keep pressuring for Red Sea port access that is controlled by Eritrea. Meanwhile, Egypt and Ethiopia remain in a negotiation deadlock over damming the Nile River. Direct military conflict in each case is a low likelihood scenario, but these tensions signal that control of vital resources such as water, ports and energy will continue to be high on the geopolitical agenda this year and into 2025.

The ramifications of non-state conflict are also on the rise. Deaths from terrorism rose to 8,352 in 2023, a 22 percent increase from the prior year and the highest level since 2017. Most terrorism activity has shifted from the Middle East and North Africa into Sub-Saharan Africa, concentrated largely in the Sahel region.[13]

For business, geopolitical competition poses risks to global shipping choke points, including the Suez Canal, the Strait of Hormuz, Bab el-Mandeb Strait, Taiwan Strait and Malacca Strait. The interconnected nature of maritime trade means that any potential disruption could spread globally, with business leaders needing to assess the risks associated with limited alternative routes and increased shipping costs.

Also, increased risk of conflict means some businesses may need extra help in setting up continuity plans, monitoring crises to ensure their people are safe and can be moved quickly if needed. Cybersecurity will continue to be a top concern, especially as substantive AI solutions are rolled out at a time where effective and globally coordinated regulation of the technology is lacking (see bottom line 3).

Finally, given a strong El Nino pattern this year (EG Top Risk #9), companies should be prepared for the risk of multiple, overlapping climate crises, from extreme heat to flooding, hitting global operations.

More specifically, the disruptions we saw as a result of conflict escalations in the Middle East are a good demonstration of the extent to which conflict can trigger broader financial and operational hazards. From December 2023, commercial vessels avoiding Houthi strikes along the Straits of Bab el Mandeb began rerouting their typical Suez Canal routes to alternative shipping lanes. Commercial traffic through the Red Sea plummeted as a result, with containers having to travel around the Cape of Good Hope instead, a much longer journey that resulted in soaring freight rates. From the date of the first Houthi strikes until US retaliation, the global freight index nearly tripled — from US$1,157 to US$3,411.[14] Crucially, even companies that operate entirely outside the Middle East are impacted by its conflicts, as alternative trade routes were similarly impacted by disruption in the Red Sea straits. One key watch-point for businesses in the coming months will be the risk of additional regional escalation

In 2022, 91 countries were involved in some form of conflict, compared to 58 in 2008.

[9] World Economic Forum, "The Global Cooperation Barometer 2024" (January 2024).
[10, 11] Institute for Economics & Peace. Global Peace Index 2023: Measuring Peace in a Complex World, Sydney, June 2023. Available from: http://visionofhumanity.org/resources.
[12] UNHCR, "Global Trends Report 2022" (2022).
[13] Institute for Economics & Peace, "Global Terrorism index 2024" (February 2024).
[14] Freightos Data, "Freightos Baltic Index (FBX)" (Accessed April 2024).

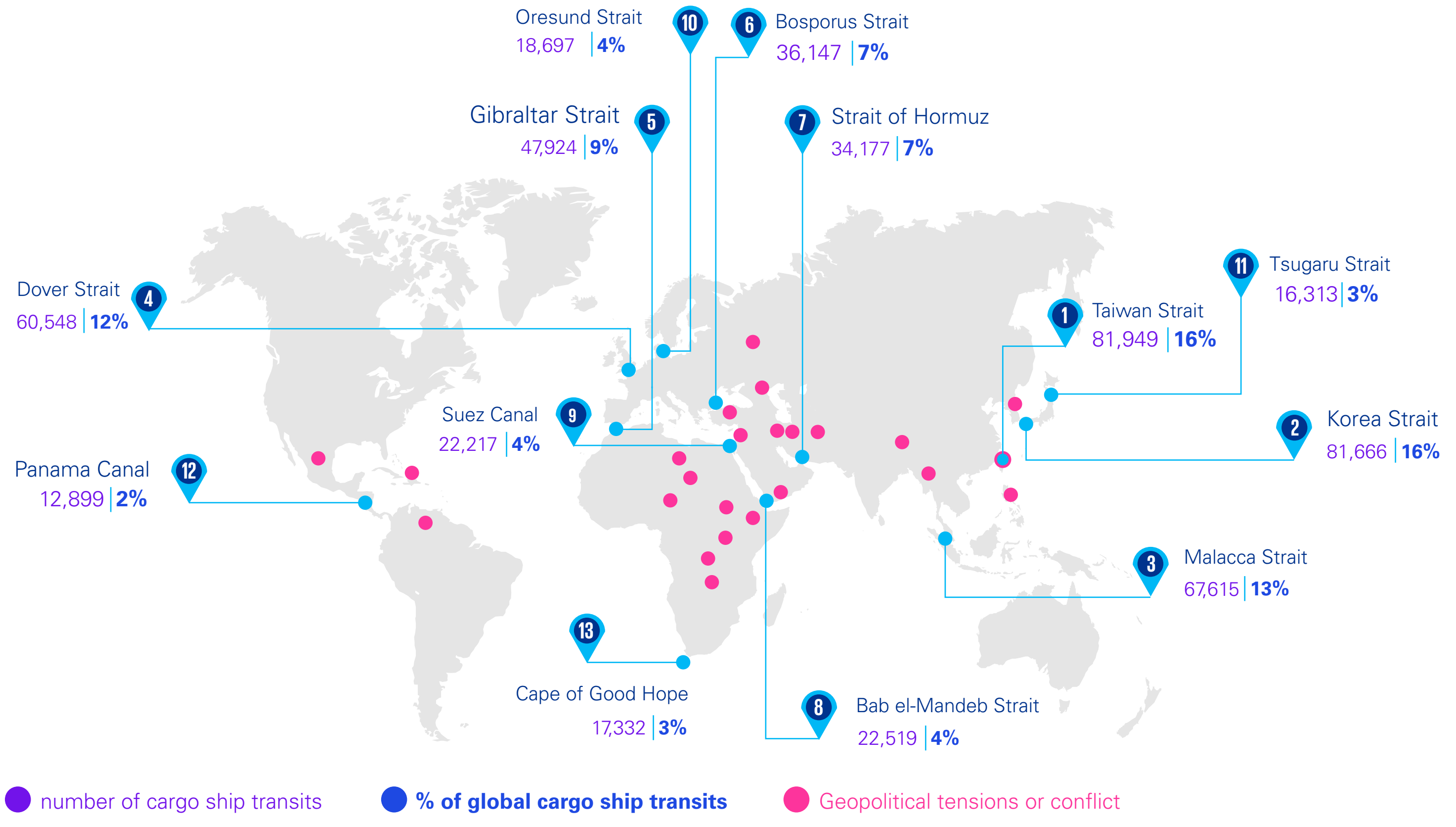
in the Middle East. In a worst-case scenario, the current crisis could escalate into a full-blown regional conflict jeopardizing global energy markets and increasing the risk of a global recession.

The fact that the majority of global trade passes through a handful of maritime chokepoints means these areas will continue to be geopolitical hotspots, undermining the stability of global supply chains and causing frequent bottlenecks if their security is left unchecked.

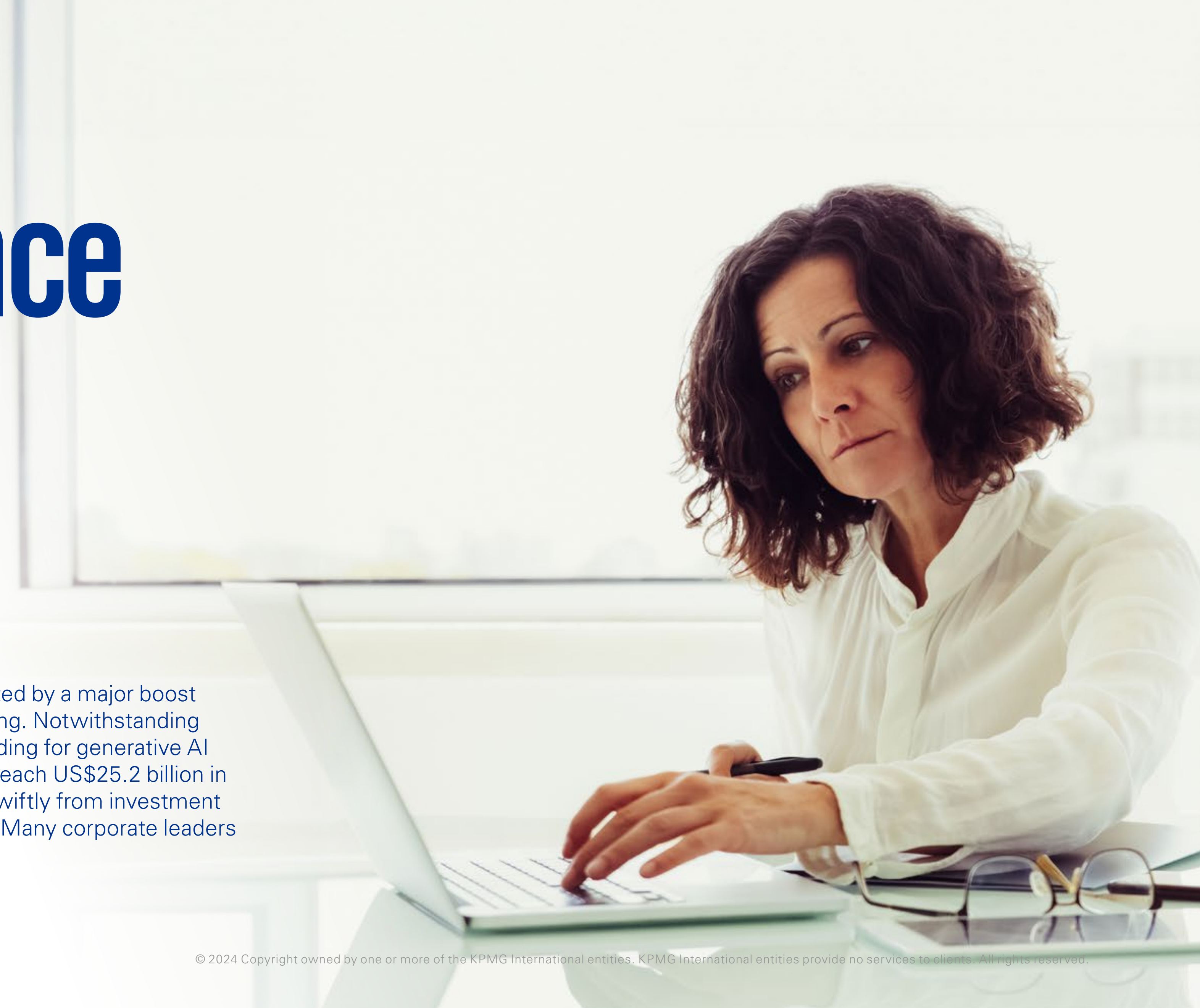
The subsequent logistical costs and delivery delays can lead to production line halts as a result, particularly for companies reliant on 'just-in-time' inventory practices for their manufacturing. In more geopolitically certain times, having flexible operational practices that prioritize efficiency over resilience makes sense. But increased disruption is now a long-term trend, and physical insecurity is on the rise. Companies that assume they must withstand only a short period of volatility before returning to status quo may be caught off-guard. Best practice companies are more likely to have embedded real-time risk monitoring and predictive analytics to mitigate coming shocks and preemptively reduce their exposure to geopolitical risk (in this instance by reducing single points of failure and building up duplicate inventory or alternative supply/delivery routes).

The geopolitical shocks of the future may not always be limited to supply chain related impacts. As we will see in the sectors focus, whether it be data protectionism in the name of national security or consumer boycotts caused by reputational considerations, companies should assume that disruptions caused by geopolitical events are going to increase and need to be addressed.

Map of global trade choke-points and geopolitical tensions (September 2023)



Source: IMF | PortWatch (September 2023).



Bottom line 3

AI governance gaps

In the world of AI, the last few years were characterized by a major boost in overall investment and specific generative AI funding. Notwithstanding a decline in overall AI private investment in 2023, funding for generative AI technology increased almost eightfold from 2022 to reach US$25.2 billion in 2023.[15] In 2024 and beyond businesses are moving swiftly from investment to implementation across their operational practices. Many corporate leaders seem to understand the risk of being left behind:

[15] Standford University. "Artificial Intelligence Index Report 2024" (April 2024).

- KPMG's CEO Outlook survey showed that 70 percent of corporate leaders are making generative AI their top investment priority.
- The value of private equity and venture capital-backed investments in generative AI companies more than doubled in 2023 to $2.18 billion (compared to $1 billion prior year).[16]
- This year has already exceeded prior year first quarter numbers with over $250 million in private-equity investments recorded.[17]
- As a result, AI investment has increased more than fivefold since 2016.[18]

While it is encouraging to see the speed with which companies are adapting to change, it is imperative that business leaders prioritize developing a truly strategic AI framework — one imbued with an understanding of the political, technical and ethical risks that AI represents.

In these efforts, it is increasingly likely that companies will have to take initiative themselves, rather than assume a reliance on global governance structures for safeguards. Indeed, the speed and generative nature of AI's progress means that any attempts at regulation will be outdated as soon as they are passed. Sweeping AI safety rules are being discussed in the US, UK, EU and UN at varying states of progress, but any governance strategy that hopes to have an impact will need to be global in scope (including private sector participation from tech companies). Thus far, these parties have been unable to rise above the strategic competition to cooperate on effective global regulation.

For companies that recognize the importance of implementing AI into their operations, they will also have to recognize that the technology requires an increased alertness to cybersecurity threats, as well as a more nuanced approach to reputational considerations.

[16, 17] S&P Global, "Private equity-backed investment surge in generative AI defies 2023 deal slump" (March 1, 2024).

[18] Standford University. "Artificial Intelligence Index Report 2024" (April 2024).

Malicious actors and entities will see these regulatory gaps as an opportunity, particularly as its use becomes more accessible and critical threats originate less from well-financed state-sponsored groups and more from motivated individuals. Government surveillance mechanisms are not likely to keep pace with these innovations, and, in certain jurisdictions, may even encourage them. Corporations need to be especially vigilant in identifying and neutralizing a wider range of attacks in the digital space.

From an internal perspective, companies should feel responsible for ensuring the right infrastructure and strategies are in place to embrace AI in a responsible, human-focused way. This means a focus on building trust and transparency among existing employees that are uncertain or skeptical of AI's impact on their livelihood, as well as consumers that prioritize personal data security and privacy in the market. In this way, companies are the initial line of defense in making sure AI benefits all, rather than adding new layers of ethical and financial risk in a time of already deep uncertainty.

Corporate leaders have identified AI's special capabilities and efficiencies and have met this understanding with substantial investment. But now, to ensure that companies move beyond the 'check the box' mentality of keeping up with competitors, they have to meet technology investment with comparable investments in security safeguards and a human-centric AI strategy. Effective governance is unlikely to come from global AI policy frameworks, and companies risk operational and reputational damage if they do not prepare.

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Navigating risks by sector

Geopolitical risks are not one-size-fits-all. They manifest differently across industries, influencing each sector's strategic decisions and operations. In this section, KPMG specialists seek to address some of the unique challenges and dynamics that various industries face in the current geopolitical climate.

Leveraging the methodology of the KPMG Financial Performance Index (FPI) to enhance our sector forecasts. Designed to serve investors, financiers, regulators and governments, the KPMG FPI aims to shed light on the comparative robustness and vitality of key markets and sectors.

We have complied a series of articles that explore the most significant risks confronting each sector and provide a granular view of the sector-specific implications of global geopolitical risks, from trade policy restrictions to AI governance gaps. Insights from the KPMG FPI provide a look into the relative strength and financial health of these sectors. We invite you to **explore these articles** to gain a deeper understanding of the geopolitical and financial risks and their potential impact on each sector.

Sectoral heat map of geopolitical risks

Geopolitical risks are multifaceted and their impact varies across industries. This visual tool allows you to quickly grasp the level of geopolitical risk across various sectors.

	KPMG sector FPI	US election	Middle East crisis	No diplomatic solution in Ukraine	Ungoverned AI	Axis of rogue states	China's slower growth**	Fight for critical minerals	Persistent global economic headwinds	El Nino and extreme weather events	Corporate culture wars
Consumer & Retail	93.87	Moderate impact	High alert	Limited impact	High alert	Limited impact	High alert	Limited impact	High alert	Moderate impact	High alert
Energy & Natural Resources	84.39	Moderate impact	High alert	Moderate impact	Moderate impact	High alert	Moderate impact	High alert	Moderate impact	Limited impact	Limited impact
Financial Services	89.97	Limited impact	Moderate impact	Moderate impact	High alert	Moderate impact	High alert	Limited impact	High alert	Moderate impact	Limited impact
Government	N/A	High alert	High alert	Moderate impact	High alert	High alert	Moderate impact	High alert	Moderate impact	Moderate impact	Moderate impact
Infrastructure	89.41	Moderate impact	Limited impact	Limited impact	High alert	Limited impact	High alert	High alert	High alert	Moderate impact	Limited impact
Industrial Manufacturing	94.26	High alert	Limited impact	Moderate impact	Moderate impact	Limited impact	High alert	High alert	Moderate impact	Limited impact	Limited impact
Technology, Media and Telecom	92.88	High alert	Moderate impact	Limited impact	High alert	Moderate impact	Moderate impact	Limited impact	Moderate impact	Limited impact	High alert

KPMG FPI score* | Limited impact | Moderate impact | High alert

*KPMG Financial Performance Index (FPI) measures the financial health of individual companies. It is based on an initial pool of more than 40,000 companies globally and identifies those companies, sectors, regions, countries, and territories that are performing well and those that are underperforming. FPI scores range from 0 to 100, with 100 representing the highest and most favorable score.

**The risk is about the major role that the Chinese economy has played over the last 15 years in driving global economic growth and how slower Chinese growth rates going forward might have an important impact on global growth prospects. Over the past decade and a half, China has been a major driver of the world's economic growth, accounting for 35 percent of global nominal GDP growth.

Sector

Consumer & Retail

Supply chain diversification (bottom line 1) has already impacted the sector significantly. Across many consumer categories, there was a notable change in import volumes from geopolitically dissimilar countries following the US application of Section 301 tariffs on a range of Chinese imports. This push and pull of commercial policy dynamics has prompted many multinational companies to pursue alternative trading partners or or even duplicating supply chains across regions to increase resilience in case of political risk. By nature, these strategies exacerbate inflationary pressures and introduce inefficiency to global trade patterns.

These new strategies, however, have also provided opportunity for rising middle powers. India is positioning itself as a global manufacturing hub given the size of its domestic labor pool and consumer market; and Vietnam has emerged as a clear destination for companies preferring to implement a resilient geopolitical strategy.

Consumer expectations on the role of business are evolving fast. A noticeable shift in sentiment toward an emphasis on political accountability has taken hold, a trend rapidly mobilized by social media and materialized in boycotts, firings, reputational damage and employee safety risks. An expected increase in violent conflict, as detailed in bottom line 2, it is likely to bring more opportunities for incidental corporate missteps in the near future, where companies either are too slow to react, have kneejerk reactions, or fail to be consistent in the way they respond to such situations.

Even saying nothing can alienate key stakeholders in today's political climate. Companies should implement decision-making frameworks for communicating on issues of political sensitivity. These frameworks should establish consistency and align with stated corporate values.

The decisions ultimately borne out of these frameworks should seek to address the following: will a public statement or non-statement impact fiduciary duty? Does action or inaction coincide with company commitments? Are core consumer bases expecting a statement or non-statement? Does the brand and its authenticity rely on a statement and/or action? Can the company withstand extended backlash in the case of action or inaction? These are questions that every company should ask, with the answers dictating policy.

Another important consideration for C&R companies in this geopolitical environment is the responsibility to its own employees and staff. Retail employees, in particular, are increasingly ensnared in political and social tensions stemming from high inflation and the cost of living crisis affecting most of the world. Protests and outbreaks of violence have often targeted brick and mortar locations, threatening direct interaction

Risk profile

High impact

- Ungoverned AI
- Middle East crisis
- China's slower growth
- Persistent global economic headwinds
- Corporate culture wars

Moderate impact

- US election
- El Nino and extreme weather events

with location staff and increasing physical insecurity. A Harvard Business Review study found that 78 percent of interviewed front-line workers said negative customer behavior toward employees is more common than five years ago.[19]

Retailers need to consider how their corporate reactions to geopolitical events or cultural controversies — such as offering direct aid, contributing funds or disseminating corporate messages — can impact in-store safety, employee security and corporate operations.

Finally, as the sector moves to make the most of generative AI technologies while effective global regulation is still lagging, they are likely to face a number of challenges. These include ensuring the protection of consumer data privacy and security, avoiding unethical AI-powered marketing and customer profiling practices, as well as guaranteeing high quality data collection and management. Data transfer across different jurisdictions for effective and integrated AI systems development might also become an issue in a more geopolitically divided world.

As the sector moves to make the most of generative AI technologies while effective global regulation is still lagging, they are likely to face a number of challenges.

[19] Harvard Business Review, "Frontline Work When Everyone Is Angry" (November 9, 2022).

Sector

Energy & Natural Resources

Energy markets, perhaps more than any other sector, reflect the volatility of today's geopolitical shocks. Key energy producing regions continue to be embroiled in conflict, economic sanctions have restricted access to cheaper supply and trade routes are increasingly under duress. These challenges are likely to increase in the short term and yet, despite these obstacles, the energy industry has displayed impressive adaptability. European countries have successfully weaned off Russian energy while avoiding debilitating shortages, American suppliers have increased output to meet increased demand, and global energy prices have returned to near pre-COVID levels.

In looking ahead for emerging risks in energy, we can see that the foundational shift in global order, in which countries cordon off "geopolitically distant" states, is ushering in profound changes in energy use and energy policy. Industrial policy in several countries has focused on increasing green and renewable energy production as a domestic priority and raising trade barriers against economic rivals (see bottom line 1) as a means to that. If effective, these regulations could catalyze the development of new energy markets, reduce dependency on less reliable supply sources, and help society achieve clean and affordable energy in the future. But this optimism depends on assured access to critical raw materials that lie at the heart of renewable energy technology.

Demand for critical minerals is expected to skyrocket due to their central importance in nearly every growth industry of the future — over 40 percent for copper, 60-70 percent for nickel and cobalt, and almost 90 percent for lithium in the next two decades.[20] Global powers hoping to maintain their economic advantages will therefore be entirely reliant on continued access to these resources. However, the distribution of natural resource endowment does not adhere to geopolitical/ideological borders. China dominates the markets of rare earth metals, with roughly 60 percent of world production including primary inputs to everything from consumer electronics to high-tech defense applications.[21] The proliferation of trade barriers runs the risk of stemming global access to these critical resources and hindering industrial development. Sharpening geopolitical divisions, rising competition and protectionism, and lack of global alignment threaten the build-out of renewable energy and the electrification of heavy industry, directly impacting energy and natural resource companies that rely on functioning international markets.

A final consideration to the economic realities that may complicate energy market outlooks: outward support of energy transition from governments, though strong rhetorically, may be tested in the short term as the higher upfront costs necessary for development may be a hard sell for populations grappling with rising living costs. In a busy election year (more than two billion people will head to the polls this year),[22] some politicians may try to undermine transition efforts by advocating for maintaining the status quo for the sake of expenditure. In this potential scenario, it is important for energy companies to remain committed to developing new technologies rather than falling into the complacency afforded under lesser scrutiny.

Risk profile

High impact

- Middle East crisis
- Axis of rogue states
- Fight for critical minerals

Moderate impact

- US election
- No diplomatic solution in Ukraine
- Ungoverned AI
- China's slower growth
- Persistent global economic headwinds

[20] IEA, "The Role of Critical Minerals in Clean Energy Transitions".

[21] Baker Institute for Public Policy, "Of Chinese Behemoths: What China's Rare Earths Dominance Means for the US" (December 19, 2022).

[22] World Economic Forum, "Why 2024 is a record year for elections around the world" (December 2023).

Sector

Financial Services

For financial services firms, the realities of the global macroeconomic landscape are inescapable. Higher cost of capital and persistent inflation have been a drag on growth and performance and, after costly pandemic activity, governments have less policy room to address these issues. From a geopolitical perspective, while the bottom lines are further exacerbating financial constraints, financial service firms can find opportunity and drive growth by addressing these challenges head on.

In relation to bottom line 1 targeting cross-border investment has become a primary tactic in the strategic competition between economic powers, a trend that increased in 2023:

- In August 2023, the Biden administration issued an executive order restricting outbound investment to China in areas deemed critical to national security.
- In the EU, increased scrutiny by regulatory watchdogs led to 10 out of 16 proposed Chinese deals falling through in 2023.
- These policies, together with lack of business confidence during uncertain times, were a contributing factor to international finance deals and mergers & acquisitions (M&As) decreasing by 21 percent and 16 percent respectively in 2023.[23]

Financial service firms in general, and insurance markets in particular, are impacted by bottom line 2 in that a rise in physical insecurity and pervasiveness of conflict will raise premiums on infrastructure/asset coverage and freight liability rates, particularly those located in or navigated via the more vulnerable supply chain chokepoints mentioned. According to KPMG's Financial Performance Index, the insurance subsector was one of the lowest performing subsectors identified in Q4 2023.

On the flip side, companies meeting these challenges head on can uncover opportunity. As a consequence of bottom line 1, supply chain visualization should become a best practice. If undertaken seriously and effectively, a by-product of this investment should be an improved ability to see vertical and integrative opportunities. Strategic deals and acquisitions at these supply chain chokepoints can both alleviate external geopolitical exposure while simultaneously increasing operational efficiency. In this sense, geopolitical risk management can be a driver of growth across financial services companies.

The strategic competition trend, with its various domestic incentive and subsidy programs, may also provide growth opportunities in itself for financial services firms. Strong, well-performing domestic financial markets are a useful tool against the coercive economic tactics of geopolitical rivals, and some governments in advanced economies may leverage their industrial policy to embolden national champions to that aim. Many of these national champions are so often the country's large financial institutions. Domestic financial service firms have a unique opportunity to work in tandem with government to "de-risk" the global financial market and unlock public support measures that would provide new areas of growth.

Risk profile

High impact

- Ungoverned AI
- China's slower growth
- Persistent global economic headwinds

Moderate impact

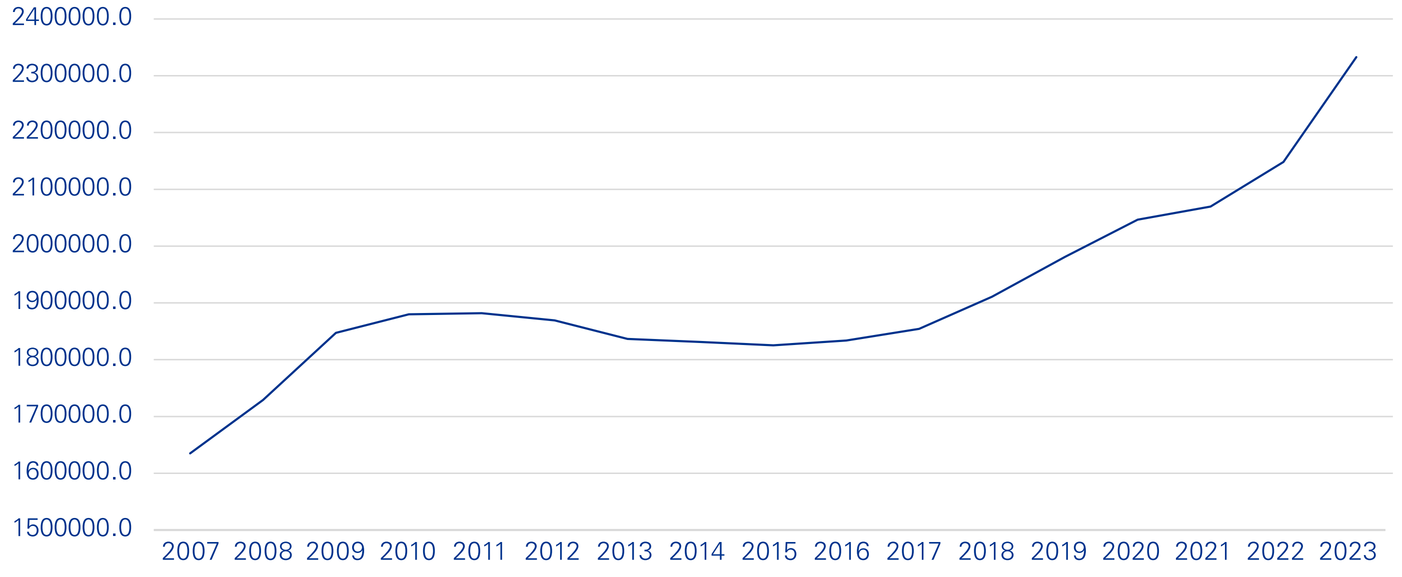
- Middle East crisis
- No diplomatic solution in Ukraine
- Axis of rogue states
- El Nino and extreme weather events

[23] UN Trade and Development, "Global FDI in 2023 Was Weak, with Lower Flows to Developing Countries" (January 2024).

Sector

Government/Defense

Global Military Expenditure, in constant (2023) US$ millions



Source: Stockholm International Peace Research Institute (SIPRI), SIPRI Military Expenditure Database

Risk profile

High impact

- US election
- Ungoverned AI
- Middle East crisis
- Axis of rogue states
- Fight for critical minerals

Moderate impact

- No diplomatic solution in Ukraine
- China's slower growth
- Persistent global economic headwinds
- El Nino and extreme weather events
- Corporate culture wars

For public sector organizations, including defense and military agencies, our bottom line 2 is of particular relevance. 2023 saw the highest number of violent conflicts since the Second World War and the UN Security Council continually proves unable to tamp down these unstable situations. Casting of veto rights among the body's largest military members proliferated in 2023: despite convening 271 times, only 50 resolutions were passed. Instead, as the upsurge in military budgets across the globe shows, defense departments decided to act unilaterally in response. Worldwide military expenditure increased by 6.8 percent in real terms in 2023, to reach a new high of $2.44 billion.[24] Both developed and emerging countries alike bolstered their capabilities, and burgeoning alliances between "geopolitically close" countries are attempting to step up and fill the global security leadership gap. The establishment of the alliance between Australia, United Kingdom, United States and the Quad are good examples of what this new shape of security cooperation might look like. But the true mettle of these security alliances has not yet been tested. Effective cooperation will require a collective strategy that relies on interoperability across a varied set of defense platforms, a willingness to share innovation and intellectual property safely and openly, and highly connected systems dependent on significant investment. For businesses in the sector, that means a greater emphasis should be placed on supplier relationship management, as monitoring suppliers and protecting the defense supply chain will be a key regulatory requirement in this adapted environment.

Importantly, those geopolitical threats are increasingly likely to originate not from conventional battlefields, but from digital spaces. Cyber threats are becoming more frequent and complex, with critical defense infrastructures a primary target for malicious attackers. As mentioned in our bottom line 3 regulations to help counter these threats will inherently lag behind technology advancements. In managing interoperability with key allies, defense organizations should establish standards and decision-making frameworks for data/IP and try to make these as flexible as possible to adapt to those of their allies. Indeed, the management of data is likely to be a key component of future success. By pulling different strands of data together, defense and intelligence organizations can generate essential insights that aid both strategic and battlefield decisions, so long as leaders adopt holistic and robust security and risk management frameworks.[25] Citizens will be looking to governments and defense agencies to produce and police governance of information related to AI. In this sense, cautious vigilance should be the preferred path forward, according to our government sector experts. A zero trust model for cybersecurity, emphasizing continuous monitoring, third-party risk management and cloud security, can help unlock the true potential of AI for governments of the future.[26]

[24] Stockholm International Peace Research Institute, "World military expenditure reaches new record high as European spending surges" (April 24, 2023).

[25] KPMG International, "Future of defense: What is shaping the defense landscape over the next decade?" (December 2022).

[26] KPMG International, "KPMG global tech report: Government and public sector insights" (February 2024).

Sector

Infrastructure

For decades, major powers have been leveraging large infrastructure investment funds and projects to promote economic development and vie for political influence, particularly among countries in the Global South. Following China's Belt and Road Initiative in 2013, the launch of the G7 Build Back Better for the World Plan in 2019 validated the role of strategic infrastructure investment in contemporary international politics. It is now apparent that the outline of tomorrow's international order will, in large part, be shaped by infrastructure, as new and equally disruptive trends[27] have emerged to place the sector firmly in the crosshairs of contrasting geopolitical agendas.

Recently the US passed industrial policies like the Inflation Reduction Act have made infrastructure uplift a central policy objective. With the massive public commitments and incentives programs these unlock, it provides a huge opportunity for companies in the market. But these policies aim to attract "smart" infrastructure proposals, fit for a more sustainable and digitally connected world. Companies that adapt to these market demands can tap into a huge opportunity in the sector. This extends from digital twins for decision making, to digital design, modern methods of construction and digitally enabled operation.

Unfortunately, the barriers to globalization in the name of national security (discussed in bottom line 1) extend to digital infrastructure. Worsening geopolitical tensions would hinder this opportunity by restricting data transfers across borders, limiting access to next generation technology from certain suppliers, and impeding global standards for things like autonomous vehicles. In this scenario, companies may have to prepare for sudden regulatory change and a distinct set of standards across jurisdictions.

To further the point, several multilateral organizations have identified the need for funding transformation in global infrastructure to meet 21st century demands and have laid out admirable sustainability and equitable development goals to achieve it. However, the realities of strained post-COVID public coffers and persistently high interest rates mean we still face a projected $15 trillion gap in global infrastructure spending through 2030.[28] To fill the gap, private sector investment will be crucial, as government cooperation cannot be counted during geopolitical recession.

Risk profile

High impact	Moderate impact
Ungoverned AI	US election
China's slower growth	El Nino and extreme weather events
Fight for critical minerals	
Persistent global economic headwinds	

[27] KPMG International, "Emerging trends in infrastructure" (January 2024).

[28] World Bank Group, "How can we ensure that "money in the bank" leads to "shovels in the ground?" (May 25, 2023).

Sector

Industrial Manufacturing

Advanced manufacturing industries are at the front line of strategic competition between economic rivals. This comes with both risks and opportunities. On the positive side, the increase in trade barriers has usually been met with increased domestic investment in manufacturing capabilities. Domestic companies, if prepared, should be able to benefit from increased government investment and subsidies. On the downside, these barriers can lead to disputes over access to key resources such as energy, minerals and rare earth elements. If a company's domestic market is not naturally endowed with these inputs and fails to alleviate the fallout of rising trade barriers, they risk being cut off from resources crucial to industrial manufacturing.

This dynamic has already had a significant impact on the sector. Supply chain disruptions and supply chain management issues continue to impact 37.8 percent of manufacturing companies. The insufficient supply of raw materials, such as steel and rare earth, has directly led to cost increases throughout sub-sectors like aerospace and industrial machinery. In 2023, 71 percent of global companies cited raw material costs as their number one supply chain threat.[29]

These supply chain disruptions are in part due to geopolitical competition between rivals, as demonstrated in the automotive industry, where electric vehicle (EV) subsidies were handed out to domestic consumers of multiple countries, each hoping to gain an upper hand in the race for advanced manufacturing advantage.

While proliferation of EV use is an admirable goal, the production of these vehicles has complicated geopolitical implications. EV technology, and rechargeable batteries in particular, rely on critical rare-earth minerals, the extraction and processing of which are heavily dependent on a handful of countries that may restrict access for geopolitical leverage.

Restricting access to these inputs could have a significant inflationary impact on manufacturing companies. And remaining over-reliant on this small group of suppliers exposes business to a vulnerability that may be exploited if strategic competition heats up further. Companies need to be prepared for regulatory uncertainty with flexible value chains and diversified supplier partnerships lest they be caught off guard when barriers continue to trend upward.

Risk profile

High impact

- US election
- China's slower growth
- Fight for critical minerals

Moderate impact

- Ungoverned AI
- No diplomatic solution in Ukraine
- Persistent global economic headwinds

[29] Samuels Group, "The Top 6 Manufacturing Challenges & Potential Solutions" (December 28, 2023).

Sector

Technology, Media and Telecom (TMT)

As global cooperation wanes and strategic competition takes its place, individual regulatory frameworks that differ across regions have become the norm. Preparing the business for one set of compliance mandates in Country A, and a completely different set in Country B, has made it increasingly difficult to operate a global business. Telecommunications firms are well aware of this complexity. Most carriers spent millions to prepare for general data protection regulation enforcement. Geopolitical uncertainty means we can expect more fragmented policy for telecoms' data usage, with an increased presence of government control and intervention.

Indeed, ongoing 6G network rollouts will be a key signpost in how technology alliances take shape over the next three to five years. Discussion of whether to allow foreign companies to participate in 6G standards-setting will demonstrate the extent of regional coherence on telecommunications policy. A more united front in pushing back on foreign company participation in 6G standards-setting would signal stronger geopolitical fragmentation across the broader tech policy stack.

Apart from regulatory uncertainty, the ramifications of increased volent conflict will also present a physical insecurity risk for telecom assets in hotspot regions. In fact, the Red Sea is major hub for telecoms cables. Some of the world's internet traffic passes through Egypt, most of it going through cables that connect Europe and the Mediterranean with Africa, the Middle East and Asia through the Red Sea, with several more under construction. Similar to trade chokepoints for goods, the resilience of a telecom's operating model relies on regular monitoring of geopolitical developments in these impacted locations.

Additionally, from a reputational standpoint, TMT companies across the sector will see a troubling increase in dis- and misinformation in the near term. In a year when four billion people head to the polls, it's never been easier for foreign states and motivated individuals to use AI to influence electoral campaigns and sow political chaos.

AI's inherent capability to outpace any regulatory guardrails means technology and media companies will have to self-regulate harmful misinformation on their own platforms. If they fail, users who tend to access information from social media will increasingly view these platforms as harmful to society, and government scrutiny (including congressional summons) will take media companies to task with potential penalties and fines.

Risk profile

High impact

- US election
- Ungoverned AI
- Corporate culture wars

Moderate impact

- Middle East crisis
- Axis of rogue states
- China's slower growth
- Persistent global economic headwinds

What can business leaders do?

New corporate approaches to geopolitical risk. Given the complicated "polycrisis" environment, companies should focus more on strategies and frameworks to move from a reactive to a proactive stance on their geopolitical exposure. The objective should be to avoid being in constant crisis-management mode and instead anticipate and respond quickly to political and regulatory trends.

To do this, companies should develop holistic approaches to geopolitical risk management, starting at the board and executive management team levels, rather than having geopolitics as merely a sub-item in the company's risk register.

The starting point should be an assessment of their current model of geopolitical risk management to obtain a baseline and then work with all stakeholders to sharpen up their framework:

- Businesses should uncover and evaluate the trends that have the highest impact on their operations, plans and investments.
- They should map the trends to key revenue and cost drivers and to the business functions that have clear accountability and ability to act.
- They should also develop a regular monitoring and reporting framework, prepare scenarios and stress testing, and prepare mitigation strategies and playbooks to respond to risks and opportunities.

Different companies may likely have different exposures to the same set of risks, so any and all potential scenarios have to be mapped to the company's specific risk exposures. Boards and management teams could include geopolitical risk as an ongoing governance process, equivalent to compliance or cybersecurity. Geopolitical risk monitoring should be established as regular — and frequent — updates about current risks, future risks, and crisis readiness plans.

These are five considerations for a more proactive approach to geopolitical risk:

1. Bring diverse perspectives to the board. A range of backgrounds and specialties improves information for making informed decisions and more rigorously testing potential geopolitical scenarios.

2. Create a systematic approach to understanding a company's risk exposure. Navigating geopolitical risk is not just about having on-the-ground intel. Map potential outcomes of issues back to actual drivers of revenue and cost to make informed decisions.

3. Create ownership of risk verticals. Risks do not sit neatly in one section of a company. Making sure specific board members own certain areas and then share that information in meetings helps prevent verticals from getting siloed.

4. Report regularly on risk assessments. Systematic reporting of mitigation plans to the board, regulators, or, to a degree, the public, can help ensure frameworks are up to date.

5. Challenge prior assumptions and bring in external experts (if needed) to create a strong framework for navigating geopolitical risk.

Every business faces unique challenges operating in a global environment, but several basic steps can help boost every board's effectiveness in helping the company navigate geopolitical risk and opportunities more systematically and cohesively.

An enterprise-wide approach to monitoring, assessing and mitigating geopolitical risk is imperative to shift from a reactive stance of crisis management to a proactive, long-term planning approach that can turn geopolitical risk into smart risk-taking and opportunity.

Risk Management:

KPMG in Norway was engaged by a global mining and natural resource processing client in understanding global best practice approaches for geopolitical risk management. KPMG provided support by embedding a secondee to the client for over a year and half. Regular country risk reports and ongoing monitoring in regions of prioritized risk registers were delivered on a consistent basis.

Importance of managing geopolitical risks holistically

The geopolitical world order is fragmenting into spheres of influence across four areas: security, economy, digital and climate:

Security

The US remains the dominant global player, but China is increasingly powerful in the Indo-Pacific, and India exerts growing influence in regional security disputes.

Economy

Shifting towards a multipolar system, with US dominance tempered by the hedging of European and Asian allies and Chinese alignment with most of the developing world.

Digital

Technology companies dominate the space, exerting sovereignty over their virtual worlds, and becoming critical actors in related areas of commerce, security and civil society.

Climate

State and non-state actors will set the model for how a post-carbon world of governance and society functions, requiring far more engagement than is evident at present.

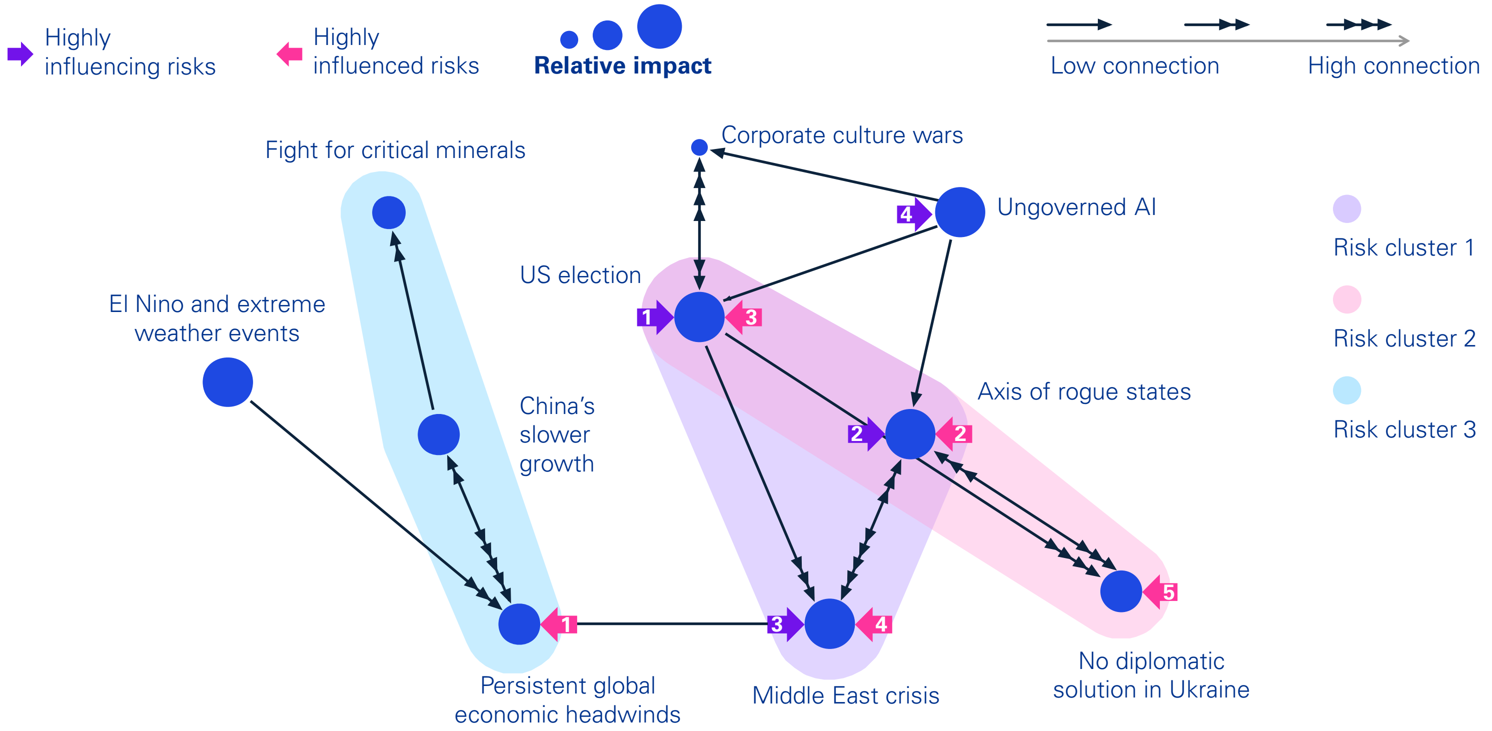
- Traditional economic forecasts are incomplete if they do not factor in the risks of governments' actions that will, often by themselves, influence sales and costs.
- Companies may become complacent based on past successes, think certain political risks do not affect them or are unable to assess the business impact of geopolitics.
- Better understanding the external environment and particularly various scenarios for government actions allows organizations to effectively lead through change.

Prioritize and quantify risk through dynamic risk assessment

Geopolitical risks rarely exist in isolation; they often interact with one another, creating complex dependencies and amplifying potential consequences. Therefore, it is crucial for companies to consider the interconnectedness of risks within their operations, supply chains and broader ecosystem. KPMG's Dynamic Risk Assessment (DRA) helps clients gain a better understanding of the risks organizations face in today's complex world of developing technology, emerging markets, climate change, growing populations and other megatrends that interact to shape our future.

The foundation of DRA is 'expert elicitation': a synthesis of expert opinions. DRA uses people as a core tool for risk forecasting because, unlike historical data, people can look forwards as well as backwards.

As a demonstration, we used the DRA tool to help determine the interconnectedness of risks in Eurasia Group's Top Risks publication. DRA helps us represent EG's top risks as a network, with each risk node influencing and/or being influenced by other risks in the broader network. It also highlights groups of risks, or clusters, that are highly interconnected, likely to occur together in the medium term and with a significant combined impact. The results imply that focusing our mitigation efforts on risks most likely to trigger, or amplify, other risks will provide the most efficient use of corporate resources.



From a whole-of-network perspective, a few features stand out which provide insight as to where corporate risk management approaches can be most effective:

- We see a scenario or 'cluster' emerge between the US election, axis of rogue states and the Middle East crisis, suggesting these geopolitical trends are interconnected and foreshadow a potentially high-risk, rapid (five-month velocity), catastrophic scenario. This cluster highlights the combined risk severity that a contested US election outcome would have on the ability to tamp down conflict in the Middle East and avoid a broader regional escalation. This failure would, in turn, further embolden the so-called axis of rogue states (Russia, Iran, North Korea) to pursue geopolitical agendas that wreak havoc on the existing global order.
- In terms of business mitigation, addressing the most 'contagious,' or influential risks (as represented by the purple arrows), can help isolate the potential impact of risks further down the contagion scale. Some of these risks can be actively managed. For example, diversifying operations, supply chains and investment channels can help companies reduce their exposure to specific risks associated with a major escalation in the Middle East affecting critical supply chains. At the very least, business leaders should be closely monitoring the ongoing crisis and assess various scenarios for potential escalation.

DRA:

Management of a leading global financial institution needed insight into market concentration risk across the different geographies in which the organization operated. There was concern about vulnerability to a particular region and the contamination effect that could arise should that region face a crisis. The client engaged KPMG in the UK to conduct a Dynamic Risk Assessment, which identified the connectivity of regional risk effects on one another, and the speed by which the impact would be experienced should the risk materialize in one region. As a result, management strategy changed and portfolio risk hedging was optimized.

See clearly: Visualize your supply chain exposure

As highlighted earlier, supply chains are now being heavily influenced by a trade policy that forces businesses toward new trading partners at a time when third-party concerns such as cyber, material scarcity and geopolitical exposure are increasing. These threats are likely to continue as companies operationalize further changes to suppliers, adjust their manufacturing footprint and implement new technologies in order to adhere to these changing geopolitical realities. Mitigating these risks requires a multifaceted approach including advanced monitoring solutions, predictive analytics, cybersecurity advancements and supplier engagements.

Our recent publication on The future of supply chain provides many actionable considerations for global operations resilience, including to manage highly consequential and uncertain geopolitical trends:

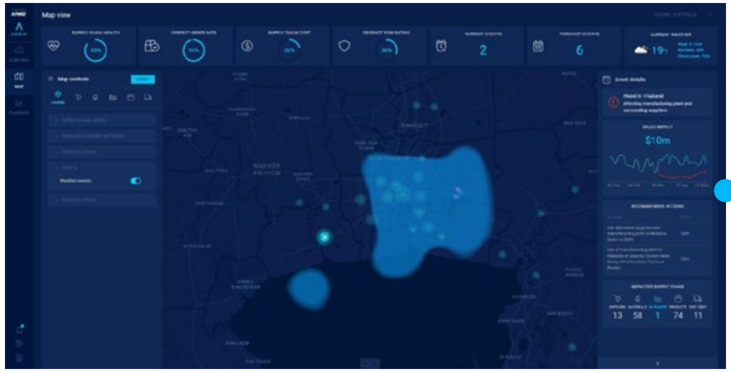
- **Improve planning capabilities** to anticipate potentially disruptive events on supply and demand.
- **Model scenarios** and simulate outcomes to assess the impact of unplanned events on the supply chain. Test changes to node locations and network structure/flows, or the impact of changing a supplier.
- Develop **multiple sources of supply** for critical raw materials or products.
- Assess **near-shoring options** to reduce geographic dependence and shorten cycle times.
- Establish **partnerships** to explore new international sourcing opportunities or leverage local content.
- Consider **additional inventory** at key nodes to protect against material access issues for critical inputs.
- Build a **contingent labor force** that can be scaled up or down to respond to disruptions.
- **Extend the supply chain risk strategy** to reach the broader value chain ecosystem of partners to ensure potential threats are managed widely. This could include assessment of geographic, financial, workforce, brand and regulatory risks.
- Consider **AI or automated solutions to screen onboarding** on new suppliers to identify potential risks.
- Ensure **cyber risk mitigation** strategies keep pace with technological developments.

Finally, technologies such as KPMG Origins and Supply Chain Predictor provide digital twins that can add visibility and scenario planning to your supply chain. These tools should become a core component both for managing day-to-day operations and to further embed geopolitical resilience within a broad range of company operations.

Executive dashboard

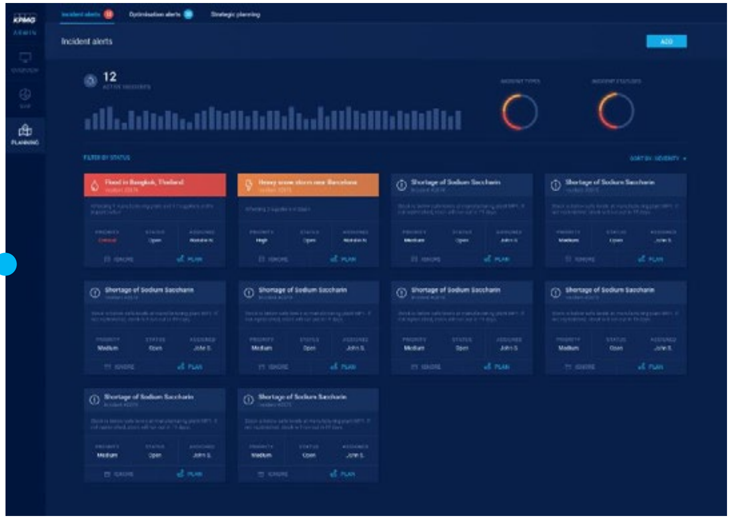
The dashboard in the home screen shows a number of important parameters with respect to the organization's supply chain health check.

Supplier, product and raw material view



Our technology highlights the number of components being provided by a supplier, along with supplier performance details such as lead times, risk ratings, revenue at risk and alternative suppliers.

Forecast events



The real power of our technology solution comes into play when you consider the predictive capability to forecast events. Unlike traditional risk management approaches, our technology solution's forecasted events are not predicted based on historic data alone, but rather on the use of internal and external smart data points enabled by digital supply chains.

Planning and strategy model

The planning module allows you to create a digital twin of your current supply chain and quick model contingency supply chains around forecast and current events, providing impact to sales, lead time and cost to implement. The module provides customizable rules to create the contingency plans.

Forge a trusted AI integration path

AI emerges as a pivotal force revolutionizing human activity, business operations and societal frameworks. Companies should be seeking to harness the power of AI and accelerate thoughtful adoption, while recognizing the inherent complexities and potential risks that accompany such advancements.

As such, AI strategies should be firmly rooted in a foundation of ethical conduct and responsible practices. KPMG developed a Trusted AI Framework to align AI services with core values, while championing principles of transparency, fairness and accountability.

From conceptualization to final deployment, leveraging this trusted AI framework can help companies navigate through the intricate terrain of leading technologies, cultivating an environment with confidence and trust in AI's transformative capabilities. By identifying avenues for change, devising action plans and adhering to industry benchmarks, this AI mindset helps drive innovation in a manner that is both ethical and responsible.

- **AI risk assessments:** use tailored frameworks designed to embed trusted AI principles into various stages of your AI initiatives. Risk assessments can be used for single AI/machine learning (ML) algorithms as well as broad assessment reviews of entire AI programs. Development of AI policies and procedures should be based on principles of integrity, fairness, resilience and explainability.
- **AI risk transformation:** ensure accountability throughout the AI lifecycle in order to integrate trust into your broader ML processes. Establish and implement governance, policies, procedures, and operating models spanning the AI ecosystem, including training, evaluating and continuous monitoring of AI models.
- **AI regulations and compliance:** anticipate the impacts of AI regulations and compliance requirements on your AI systems. Conduct detailed checks to align your AI practices with international and industry-specific regulations. Continually monitor and update your AI systems to keep them compliant in a rapidly evolving regulatory landscape.

Pre-empt disruptive regulation by driving sustainable innovation today

In today's increasingly disruptive world of climate disasters, political conflict and societal inequalities, rapid ESG progress is crucial to achieving a more sustainable future.

Organizations should be seeking to harness the power of ESG to transform their business and build a more sustainable future by enhancing trust, mitigating risk and unlocking new value. Below is a holistic and practical guide to help drive sustainable innovation across your business.

- **ESG reporting:** Companies have to initially understand their current-state readiness to report on committed ESG-related, non-financial disclosures and be able to prioritize practical next steps. Giving an honest self-assessment can help identify gaps in your reporting, particularly as regulatory compliance requirements continue to increase.
- **ESG assurance:** The need for confidence in ESG disclosures is growing. The information that businesses report must be robust and independently assured to gain the trust of investors, stakeholders and the wider public. The obligation is clear: to deliver ESG assurance that can serve the public interest.
- **ESG strategy transformation and implementation:** Develop an ESG strategy as a holistic enterprise strategy that helps create long-term value for all stakeholders. This must be in alignment with business objectives and build resilience to enable ongoing success in the future. Companies should endeavor to know where they can have the greatest impacts on long-term value creation, translating these areas into priority ESG topics.
- **ESG deals and value:** Companies should seek advice from subject matter specialists and work with reliable, experienced service providers on matters related to due diligence in the context of M&A transactions. Reputational considerations in regard to ESG will increasingly impact the narratives surrounding M&A transactions. Working with trusted advisers can help mitigate this trend.
- **Decarbonization, climate and nature:** Take steps to identify, quantify and manage climate risks and opportunities through enterprise-wide digital tools (such as KPMG's Climate IQ). An easy-to-use platform for quantifying your climate risk can help decipher a robust and transparent methodology for the analysis of climate risks and opportunities, while also helping to ensure consistency across global operations in how you quantify and assess climate risk.
- **ESG tax and legal:** Having robust tax policies and practicing good tax governance are critical steps before embarking on increasing transparency to show your company is a responsible taxpayer. Being able to benchmark tax governance and disclosures against standards and peers provides valuable insights and improves decision making.

ESG reporting framework:

A large American healthcare company that acts as a retail pharmacy chain, a pharmacy benefits manager and a health insurance provider needed an ESG reporting framework to streamline calculations, reduce timelines to report, generate insights to help decarbonize and meet regulatory requirements. KPMG in the US combined ESG strategy consulting with technical capability to implement an ESG reporting platform. The solution recommended Microsoft technologies that not only met customer needs while working with existing customer technologies.

Develop a public engagement strategy playbook

Many business leaders are increasingly pressured to take a position in the public sphere on social and political issues. Corporate affairs experts are facing multiple, complex and dynamic issues, ranging from polarizing conflicts, minority rights, gender issues, cost of living crisis, net zero targets and more. As such, knowing how to navigate polarizing issues is critical. Reactive or imprudent statements or even images of maps shown on websites or advertisements can lead to a broad range of repercussions, including boycotts, loss of revenue, safety repercussions for employees and reputational risks.

This means that companies need a framework to decide when and how to communicate publicly on social and political issues. It is imperative to move away from reacting to the trend of the day toward a consistent approach to engagement. Businesses need to know when to shape their own narratives and when to make meaningful statements in alignment with company values and commitments.

Some high-level considerations for the development of a coherent strategy playbook for external corporate communications include:

- Will the company's political position improve the business model or will failure to take a stance hurt the organization?
- Does taking political action clearly support company goals and commitments?
- Are key stakeholders (shareholders, consumers, employees, regulators, etc.) advocating that the company make a statement?
- Is the issue strictly linked to the mission, strategy and operations of the business, or is it one on which the business has a material impact?
- In failing to act or take a view, will the company lose its social license to operate?
- Does the company's purpose, offering or brand vision make public engagement authentic and in line with its social perception and strategy priorities?
- Can the company follow through with its public position via its business strategy and operations?
- Do company actions align with or amplify its political position, or vice versa?
- Can the company support its views and statements in the face of opposition?

It is imperative to move away from reacting to the trend of the day toward a consistent approach to engagement.

Conclusion

These bottom line trends will be common to all companies operating globally. There will be more friction in supply chains, making it increasingly complicated to run global processes or business functions, with companies needing to build out regional variations in order to ensure compliance.

AI will add an additional, completely new layer of risks and opportunities to be managed globally, while also taking into account regional standards. More than ever, companies should have a very clear view of their risk universe, the interdependency of their risks, and define their risk appetite and the playbooks for swift, consistent action when those risks occur.

More than ever, companies should have a very clear view of their risk universe, the interdependency of their risks, and define their risk appetite and the playbooks for swift , consistent action.

At the high level, these are some major takeaways business leaders could consider when managing the current geopolitical environment:

Key takeaways — Geopolitical trends in 2024 and beyond

Regionalization of trade, rise in global conflict, climate risk and the tech race are driving business volatility in 2024 and beyond.

- Supply chain resilience still a priority amid rising geopolitical tensions
- Investment and location decisions based on political, not economic factors
- Companies will have to take the lead on AI strategy and policies
- Diverging trends on ESG regulation and corporate scrutiny
- Companies will need to adopt a proactive stance on geopolitical exposure

Snapshot of elections across the globe (illustrative, not comprehensive)

May
Dominican Republic, India, Lithuania, Panama, South Africa

June
Belgium, EU Parliament, Iceland, Mexico

July
Rwanda, Venezuela

September/October
Georgia, Jordan, Moldova, Mozambique, UK (TBC), Uruguay

November/December
Croatia, Ghana, Mauritius, Romania, Singapore (TBC), South Sudan, United States

2025
Australia, Canada, Chile, Germany, Iran, Jamaica, Japan, Philippines, Poland

About the KPMG and Eurasia Group alliance

KPMG International has formed an alliance with Eurasia Group, one of the world's leading global political risk research and consulting firms, to develop strategies that help businesses deal with geopolitical challenges. Through the alliance, KPMG professionals can bring the political insights of Eurasia Group's analysts across 100+ countries and territories together with KPMG member firms' nuts and bolts understanding of your business, from the macro to the most granular of analysis.

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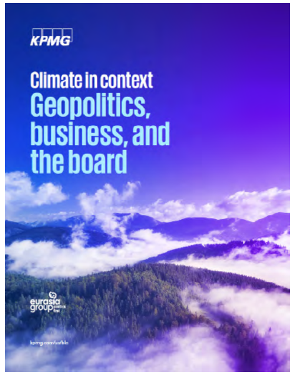
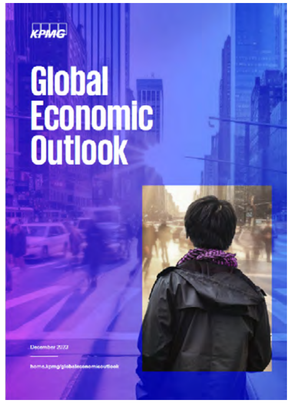
Additional KPMG insights:

Climate in context: Geopolitics, business, and the board



Global economic outlook



Managing todays geopolitical risks

KPMG global tech report 2023

KPMG 2023 CEO Outlook

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