

INDO-PACIFIC

From war to nuclear warheads, geopolitical risk hits boardrooms

Ukraine reminds companies that strategies cannot be based on peaceful outlook



People arrive at a temporary accommodation center after fleeing Russian invasion of Ukraine, in Korczowa, Poland on March 3. © Reuters

RYUSHIRO KODAIRA, Nikkei senior staff writer April 1, 2022 14:47 JST

TOKYO -- When corporate chiefs sit down to formulate strategies for the coming years, they will now have to factor in words such as "war" and "nuclear-weapons use."

The peace that companies took for granted in the post-Cold War world is no more. Companies have to navigate a world filled with geopolitical risk. Russia's invasion into Ukraine has only brought that trend to the fore.

We are already in the middle of a third world war, Fiona Hill, a former White House adviser on Russian affairs, told Politico in a recent interview. "We have been for some time."

Russian President Vladimir Putin is likely to use all the weapons at his disposal, including nuclear ones, Hill added.

Some have tried to [measure geopolitical risk](#). U.S. Federal Reserve Board economists Dario Caldara and Matteo Iacoviello have compiled a Geopolitical Risk (GPR) Index with an algorithm that counts the frequency of articles related to geopolitical risks in leading international newspapers published in the U.S., the U.K. and Canada, such as The New York Times, the Financial Times and The Wall Street Journal.

Six categories of words are measured, including "geopolitical risk," "threat of war," "airstrike" and "terrorist act."

The [latest](#) Geopolitical Risk Index, as of Feb. 1, stood at a score of 178.90, a 40-point increase from the month before. It is the highest since April 2003, in the height of the Iraq War, when the GPR Index was 255.78.

The index reached 512.53 after the 9-11 attacks in 2011 and 379.25 ahead of the Gulf War in 1991.



BlackRock's Geopolitical Risk Indicator has identified "Russia-NATO conflict" as the biggest risk since February. Meanwhile, the resurgence of the coronavirus is not even in the top 10 anymore.

BlackRock's Geopolitical Risk Indicator has identified "Russia-NATO conflict" as the biggest risk since February. Meanwhile, the resurgence of the coronavirus is not even in the top 10 anymore.

BlackRock, the world's largest asset manager, calls the situation in Ukraine "the most serious security challenge in Europe since the end of the Cold War."

A similar warning has been issued by the International Corporate Governance Network, an organization that represents investors, companies and financial intermediaries to promote higher standards of corporate governance. "ICGN condemns the Russian invasion of Ukraine as an egregious violation of international law and as a morally unjustified attack on a democratic sovereign nation and its citizens," it said.

"Geopolitical conflict is not something new. But from an investor perspective it is also a dangerous systemic risk that weakens peace and security, destroys wealth and the fabric of society -- locally and globally," it said.

With members from over 45 countries responsible for over \$59 trillion in assets, ICGN's stance has the potential to influence the wider investment world.

Already, companies are weighing the risk of continuing business in Russia. Almost 500 companies have withdrawn from Russia as of March 31, [according to a tally](#) maintained by Yale Chief Executive Leadership Institute.

When Toyota Motor announced in early March that it would halt production at its St. Petersburg plant due to supply chain disruptions, the automaker said, "Like everyone around the world, Toyota is watching the ongoing developments in Ukraine with great concern for the safety of people of Ukraine and hopes for a safe return to peace as soon as possible."

Global automakers feel the geopolitical risks as much as anybody.



McKinsey has proposed five ways for companies to manage geopolitical risk, including a suggestion for boards to hold a regular forum to analyze how to respond to geopolitical risks. © Reuters

Consultancy McKinsey & Company has [proposed five ways](#) for companies to manage geopolitical risk.

First, it suggested boards hold a regular forum to analyze how to respond to geopolitical risks. The forum should assess risks that matter the most to a business and not dedicate time to risks that do not directly affect operations.

Second, it advised a trifocal lens -- short term, medium term, and long term -- to assess potential risks and respond accordingly.

The third pillar is the corporate narrative, or how the company talks about itself. In the age of instant information, a narrative that works in one place might create sensitivities in others, the consultancy said. "Part of managing geopolitical risk is considering the ramifications of a company's core narrative."

Fourth, traffic lights. Companies should have a set of rules or strategic guidance for engaging with a country, and have a warning system with red, yellow, and green lights that represent escalating risk levels.

Finally, company leaders need to "weave the fabric of a global organization" that represents various geographic regions, McKinsey said.

A tall order? Welcome to the new world of 2022.

Meanwhile, a U.S. National Intelligence Council report, [Global Trends 2040](#), forecast that "no single state is likely to be positioned to dominate across all regions or domains, and a broader range of actors will compete to shape the international system and achieve narrower goals."

China and a Western coalition led by the U.S. will "jockey to shape global norms, rules, and institutions," it says. As seen in the Ukraine war, Russia and China are becoming proliferators of geopolitical risks.

It was in [a 2001 paper](#) that then-Goldman Sachs economist Jim O'Neill coined the phrase BRICs to describe a group of emerging countries -- Brazil, Russia, India and China.

"Over the next 10 years, the weight of the BRICs and especially China in world GDP will grow, raising important issues about the global economic impact of fiscal and monetary policy in the BRICs," he said.

Last year, two decades after the report was published, O'Neill [looked back](#) and noted the primary goal in the paper was "to make a case for changing the framework for global economic governance, not necessarily the inevitable future growth of these countries."

By O'Neill's theory, the current geopolitical risks could be a result of failing to establish a framework for governance.



Future risks include climate change, with floods possibly drowning islands and shifting the world's natural borders. (Getty Images via Kyodo)

Neither the Group of Seven, the Group of 20 or the U.N. Security Council has been able to respond effectively to the Ukraine crisis.

With plenty of geopolitical risks still lurking, including a Taiwan contingency and North Korea's nuclear program, the world may need to quickly come up with a new scheme for global governance.

One element of geopolitical risk that has emerged of late is climate change.

Klaus Dodds, a professor of geopolitics at Royal Holloway, University of London, argued climate change will flood coastal regions and drown islands, shifting the world's natural borders -- from mountains to glaciers to rivers.

This will create environmental refugees and destabilize international politics, he predicted in "The New Border Wars: The Conflicts That Will Define Our Future."

By 2050, "billions of us will be facing, in all likelihood, water shortages, sea-level rise and excessive heat. Large-scale population movement is likely," he said.

<https://asia.nikkei.com/Politics/International-relations/Indo-Pacific/From-war-to-nuclear-warheads-geopolitical-risk-hits-boardrooms>