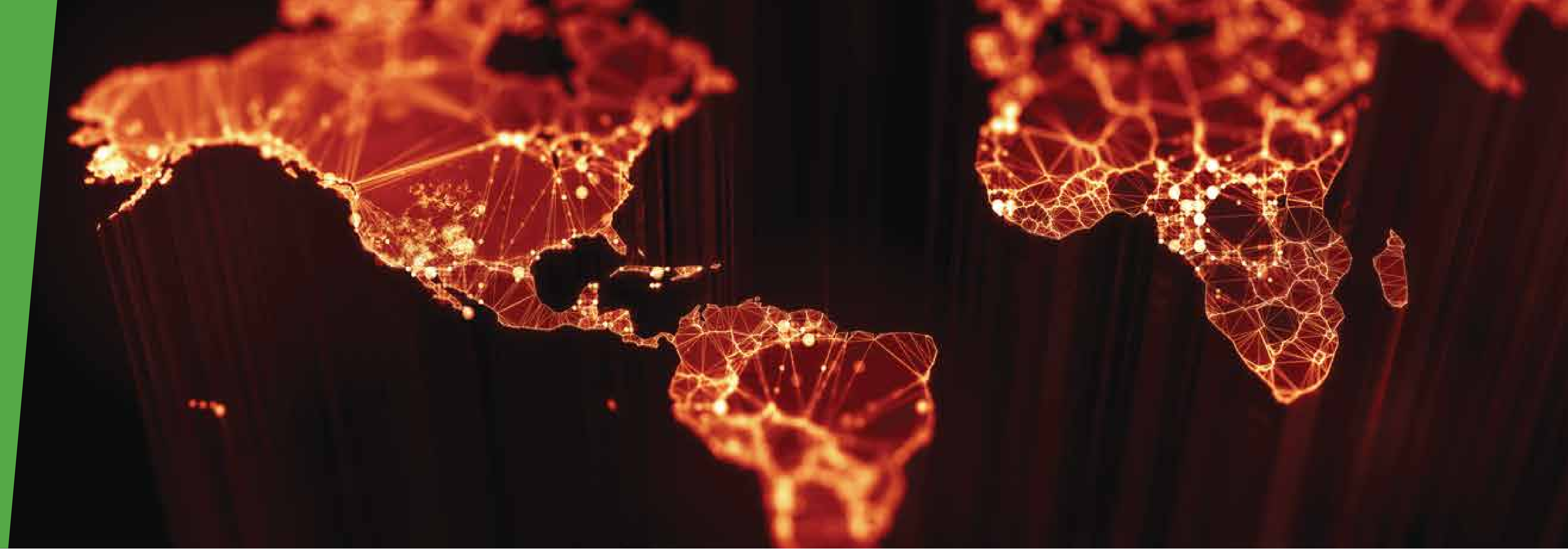
# The Global Economy

Simon Constable



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# A Geopolitical Heat Map on Fire

On one late-spring afternoon, a commercial airliner approaching the Lithuanian border was diverted by Belarusian officials. They ultimately removed and arrested one of the plane's passengers, an opponent of the authoritarian president of Belarus, in what some are calling a "state-sponsored terrorist act." The airspace above Belarus immediately became heated political territory, disrupting travel throughout the area and, more importantly, threatening another regional conflict.

They crept up on us, these flash points of tension, as the world remained gripped in a pandemic for month after month. Iran and Saudi Arabia, Ukraine and Russia, China and Taiwan—the list goes on. In a normal year, any one of those escalations, whether flagrant or discreet, would have drawn worry from multinational organizations. That's not only because they affect matters like supply chains but also because they have the potential to reshape the world economy. "Geopolitical hot spots aren't just multiplying, they are intensifying," says Art Hogan, chief market strategist at the financial firm National Securities Corporation.

These far-flung outbursts might not have mattered much a few decades ago, when many of today's corporate leaders were just launching their careers. When the Cold War ended in 1991, the United States reigned supreme in both economic and military power. But with international commerce flourishing in the years since and the financial footprint of the US shrinking, a sophisticated understanding of international affairs has become essential in the C-suite, especially since today's friction is occurring between significant economic players in key sectors. "There is a very complex web of interdependency," Hogan says. While a company might do steady business overseas today, that could explode in chaos tomorrow. Were Russia to invade Ukraine, as seemed imminent earlier this year when troops massed at the border, that could disrupt global food prices. A Chinese annexation of Taiwan could cause big problems too—China controls 30 percent of production of rare-earth metals, which are vital to the defense industry and smartphones.

China continues to be an area of massive uncertainty. The country's leaders are trying to shift the semiconductor business to its mainland in an effort to undermine Taiwan, which could create a politically risky situation for any firms involved. (China and Taiwan combined control 11 percent of global semiconductor production.) Meanwhile, a resolution to the trade war any time soon looks unlikely.

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This all means executives need to be doing a lot of scenario planning, a process that experts say will only become increasingly difficult. A company knows its own supply-chain origins, of course, but what about the suppliers' suppliers, and so on? At the same time, some companies are restructuring business plans to avoid these hot spots, says Peter Tchir, head of global macro strategy at the New York investment bank Academy Securities. In particular, CEOs don't want to be associated with anything seen as unfriendly to Western interests, he says. That includes not contracting with companies that violate human rights or are environmentally destructive. For example, following reports of forced labor involving a Muslim minority in China, the sportswear maker Nike says it will no longer source cotton from the region involved.

There is some good news: Most countries don't want a military flare-up as international focus is on rebuilding the pandemic-battered world economy, says Win Thin, global head of currency strategy at the New York–based bank Brown Brothers Harriman. The United States doesn't seem likely to get bogged down in a war in Ukraine, he says. Still, even if tensions are on a low simmer, they can boil over quickly. "We are all scared of some kind of military accident," he says.

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