

GEOPOLITICS AND THE STATE OF THE WORLD

29 September 2022



Nikolaus Lang
BCG Global Leader -
Global Advantage
Practice

Today's environment

As of 28 SEPT 2022

CNBC

20th September, 2022

INFLATION

2-year Treasury yield reaches fresh 15-year high ahead of Federal Reserve interest rate hike decision

FINANCIAL TIMES

12th September, 2022

LABOR SCARCITY

Wall Street jobs are hot again as tech and crypto lay off staff

NIKKEI Asia

11th September, 2022

DECOUPLING

Biden to hit China with broader curbs on U.S. chip and tool exports

DW

02nd September, 2022

ENERGY TRILEMA

Nord Stream 1: Russia's Gazprom announces indefinite shutdown of pipeline

The Economist

21st July, 2022

THE ESG GAP

Three letters that won't save the planet

KYIV POST
UKRAINE'S GLOBAL VOICE

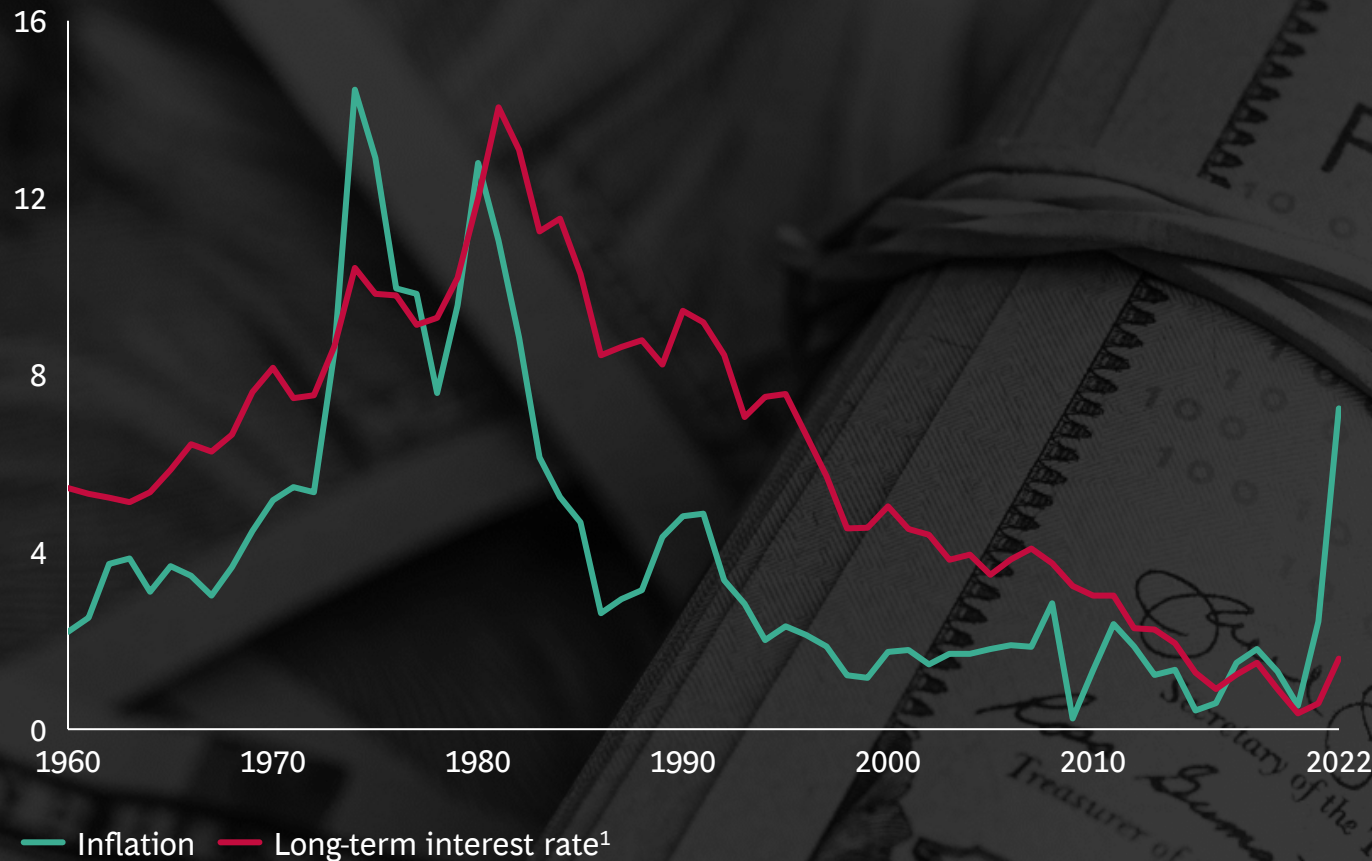
22nd September 2022

WAR IN UKRAINE

Pressure On Putin As Reservists Called Up For War

Inflation - Are we facing inflation, recession, or both?

G7 countries historical rates (%)



1. Italy (1960-1990) and Japan (1960-1989) data not available
Source: World Bank – inflation, OECD – long-term interest rates, Trading Economics



Aim for soft-landing – rate hikes critical



Brace for the impact of strong dollar esp. in EMs



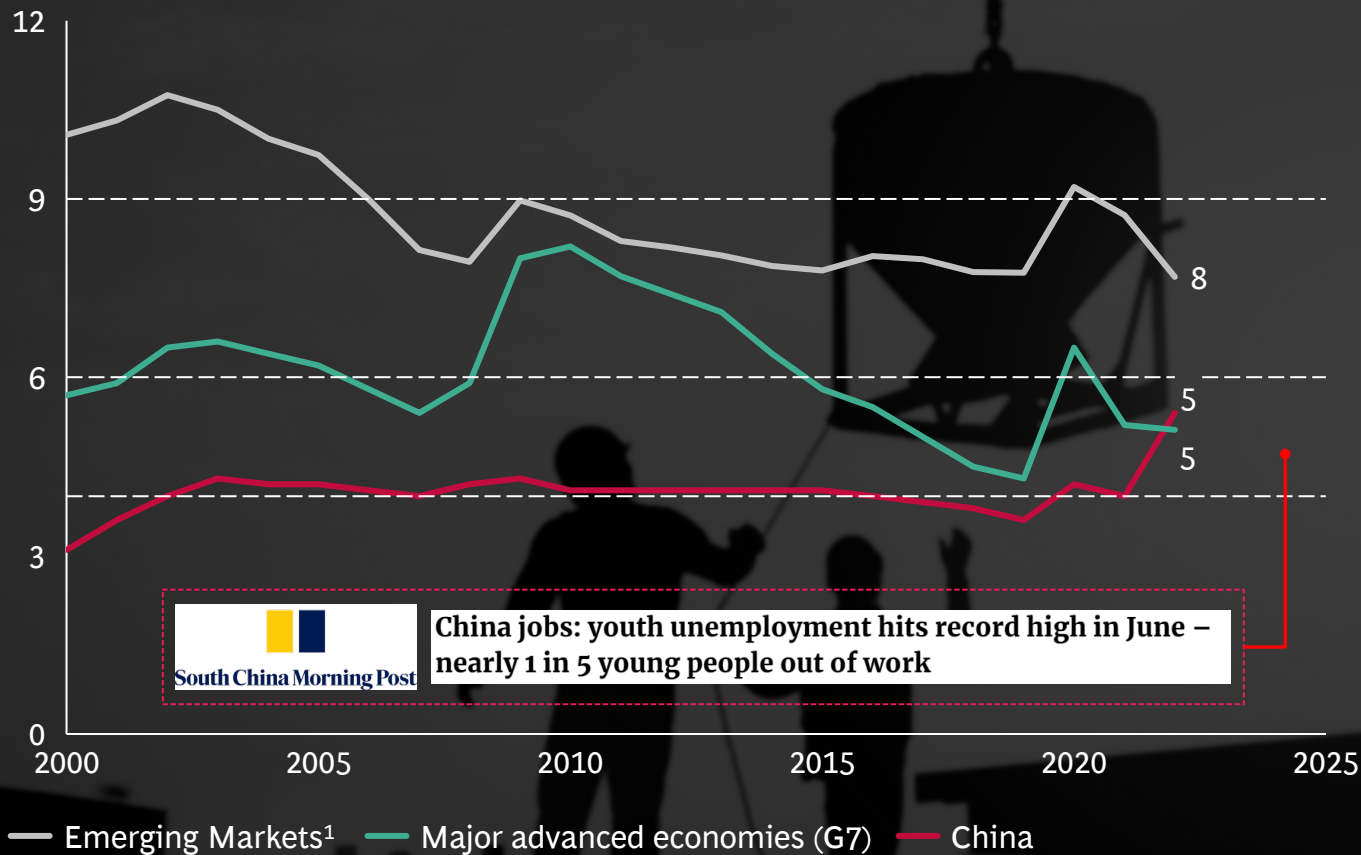
Use Scenarios – prepare for any future



Take precautions: recalibrate portfolio, pricing, M&A, etc.

Labor scarcity - is it now time to face the music?

Unemployment rate (%)



Tap into diverse talent pools



Invest in up-skilling and re-skilling



Build labor resilience in supply chain

1. Using IMF definition of Emerging Markets. India, Nigeria, Qatar, UAE not included due to data insufficiency Note: data points are averages of individual nations annual figures
Source: IMF World Economic Outlook (April 2022), Trading Economics (September 2022)

Decoupling - Rethinking China's role – what is the setup of future supply chains?



39%
Further
Investment



18%
Exit or Supply
Chain Shift



43%
No
Announcements



Ongoing COVID
Management Policies



Challenging Economic
Climate



Current geopolitical
dynamics



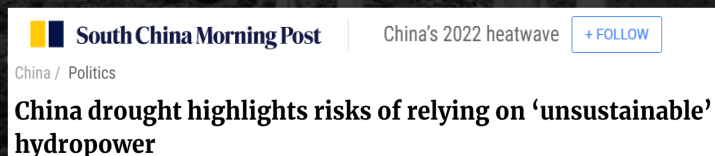
Different setups:
significant market; supply
chain hub; innovation
frontier)

1. Including companies have limited business or no business in China. We have scanned public announcements during Jan 2018-Feb 2022 by 365 non-Chinese companies on the 2021 Fortune Global 500 list
Source: Fortune Global 500 2021, Capital IQ, Lit research; BCG analysis

Energy trilemma - How do we assure security and affordability while taking care of the climate and environment?



Environment



Energy volatility puts livelihood and manufacturing at risk



Geopolitical map redrawn – strategic partnerships & new deals



Diverging pace of energy transition

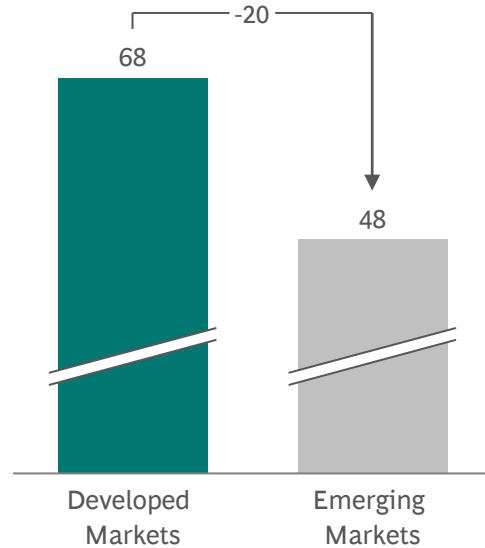


Food for thought: are renewables still reliable?

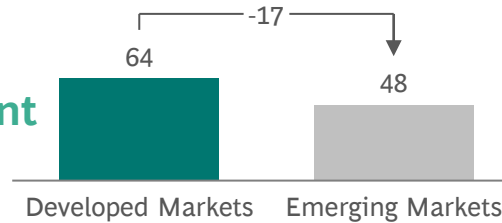
A critical ESG gap | How do we close it?

Significant ESG difference

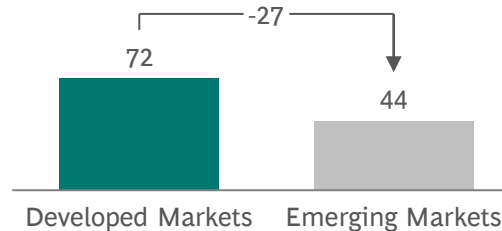
Weighted ESG scores¹ of G20 countries 2020 (0-100)



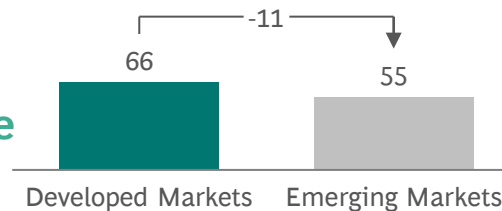
Environment



Social



Governance



EMs are lagging developed markets across all ESG pillars



Limited access to expertise and know-how to navigate ESG landscape from reporting to action



Opportunity to unlock value through "genuine and comprehensive" ESG initiatives

1. Weighted scores acc. to market caps represented in the analysis above

Notes:1 ESG Reporters Percentage according to total market cap is 83% in Developed Markets, 78% in Emerging Markets

Notes 2: Developed Markets: USA, Japan, Germany, UK, France, Italy, Canada, South Korea, Australia, Spain, Netherlands, Switzerland, Singapore; Emerging Markets: China, India, Russia, Brazil, Mexico, Indonesia, Turkey, Argentina, South Africa, Saudi Arabia

Source: Refinitiv, Statista, BCG analysis

War in Ukraine - Global Economic Impact

Global Growth Outlook

GDP Forecasts¹

	World Bank		Leading FIs	
	2021	2022	2022	
	Actual	Jan'22 Forecast	24 Aug – 14 Sep '22 Forecasts	
			Median	Minimum
Russia	4.7%	2.4%	-6.0%	-15.0%
Euro Zone	5.3%	4.2%	2.8%	2.1%
Global	3.9%	4.1%	2.9%	0.8%

Note: The World Bank slashed global forecast to 2.9% on 7 June

Commodity Prices⁴

Commodity price (actual, \$)

Commodity	Jan 3 '22	Sep 15 '22	Change
Crude Oil (\$/bbl)	79.0	89.6	+12%
Gas (\$/MWh)	80.4	224.5	+179%
Coal (\$/t)	157.5	434.5	+176%
Wheat (€/bu)	274.0	322.3	+18%
Rapeseed (€/t)	728.5	581.8	-20%
Nickel (\$/t)	20,430.0	23,770.0	+17%
Palladium (\$/oz)	1,826.0	2,131.3	+17%

Supply Chain Metrics

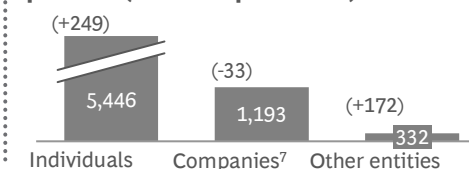
Deep Sea Cargo Bosphorus Straits Transits (Avg. #/day) ²					Deep Sea Cargo Port Calls (Avg. #/day) ²					Baltic Dry Index (Daily Avg) ³				
	Pre-War (Nov '21)	Prev. Wk (8/31-9/6)	Curr. Wk (9/7-9/13)	ΔCW-PreWar		Pre-War (Nov '21)	Prev. Wk (8/30-9/5)	Curr. Wk (9/6-9/12)	ΔCW-PreWar		Pre-War (Nov '21)	Prev. Wk (9/1-9/7)	Curr. Wk (9/8-9/14)	ΔCW-PreWar
Northbound	8.9	5.6	6.0	-33%	Ukraine	4.5	0.1	0.9	-80%	BDI ³	2780	1094	1330	-52%
Southbound	9.6	5.7	6.1	-37%	Russia	21.6	16.7	20.3	-6%					

Sanctions & Policy Actions

Updates since 10 July

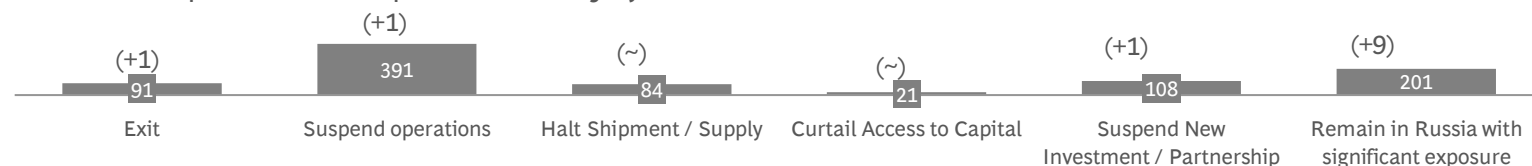
- Sanctions pace slows but enforcement seen e.g. US penalizes Iran company shipping drones to Russia
- EU tightens "6th round" with gold ban and full restrictions on Sberbank
- Russia continues retaliation, e.g. adds 8 to "unfriendly country list;" slows Nord Stream 1 "until sanctions are lifted"
- Germany responds to Nord Stream 1 slow down by seizing 3 Rosneft assets

Cumulative # WW Sanctions in-place⁵ (Δ since previous)⁶



Corporate Actions in Russia Market

Based on sample of +890 companies as of 13 July 2022⁷



1. GDP forecasts from World Bank and FIs per Bloomberg database (30-56 FIs per forecast period) 2. Deep Sea Cargo: oil tankers MR & up, bulkcarriers Panamax & up, containerships 3,000+ TEU, VLGCs, LNG carriers 60,000+ cbm & PCTCs 6,000+ ceu. Clarkson's Research (<https://www.clarksons.com/>) Clarkson Research Services Limited ("Clarkson's Research"). © Clarkson's Research 2021. All rights in and to Clarkson's Research services, information and data ("Information") are reserved to and owned by Clarkson's Research. Clarkson's Research, its group companies and licensors accept no liability for any errors or omissions in any Information or for any loss or damage howsoever arising. No party may rely on any Information contained in this communication. Please also see the disclaimer at <https://www.clarksons.net/Portal/disclaimer>, which also applies. No further distribution of any Information is permitted without Clarkson's Research's prior written consent. Clarkson's Research does not promote, sponsor or endorse the content of this communication. 3. <https://www.bloomberg.com/quote/BDIY:IND>; Baltic Dry Index (BDI) is index of avg price paid for transport of dry bulk mat'ls across 20+ routes 4. S&P Capital IQ 5. Total sanctioned actions, incl. duplication. Source: [corrective.org](https://www.corrective.org) 6. Numbers in parenthesis () indicates increase /decrease since last update. Where there is a decrease this is because reclassification due to definitions, and company action recategorization from one to another. 7. Yale Chief Exec Leadership Inst.. Note: BCG does not provide legal or regulatory advice

War in Ukraine - Future scenarios

Military conflict **ceases**

Fall of Ukraine

Russian forces control full country

David defeats Goliath

Ukraine repels Russian forces

Freeze in-place (Korea 2.0)
Negotiated peace / *de facto* partition

Military conflict **persists**

No end in sight (Afghanistan 3.0)
Protracted stalemate

Global spillover

Further conflicts in other theatres



= *Momentum scenarios, focus of next page*

War in Ukraine - Two scenarios are most likely



Freeze in-place Korea 2.0

- Certain sanctions lifted
- Major re-build required
- Uncertainty over potential conflicts



No end in sight Afghanistan 3.0

- Sanctions remain indefinitely
- Significant socioeconomic impact
- Sustained isolation of Russia

World 2030 | Future scenarios

Note: These analyses represent only potential scenarios and are not intended as a prediction or forecast
Source: BCG analysis

ILLUSTRATIVE – FOR DISCUSSION



Back to the future

Major powers see benefits in global cooperation and minimized military conflicts



Tripolar competition

Western & Eastern blocs coexist in new balance, while "non-aligned" nations seek 3rd path; norms and institutions differ within and among blocs



Limited stalemate











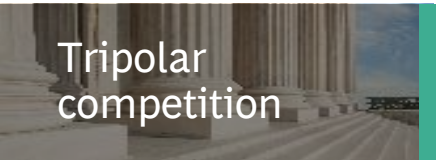





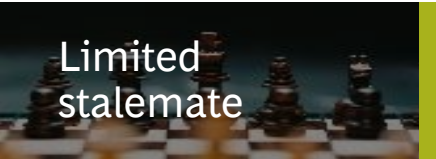





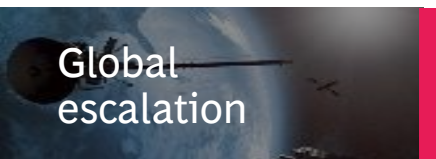





Chronic conflict in Ukraine & elsewhere in non-NATO former Soviet republics; China keeps distance from Russia; economies survive sanction shock; West-inspired institutions struggle for relevance



Global escalation

Economic & military confrontations erupt in multiple locations, disrupting trade patterns; economic & military power supplants institutional system

World 2030 | Scenario impact on KPIs

	    indicates direction vs. 2019 baseline ¹	GDP Growth	Global Trade Trade % of GDP (physical goods)	Inflation	Oil Price Price/barrel	Global temperature increase (°C)
 Back to the future						
 Tripolar competition			 Major corridor mix shift			
 Limited stalemate			 Regionalization			
 Global escalation						
Reference (2019):		~3% ²	56% ²	~2% ²	\$64 ³	-

1. 2019 selected as pre-Covid baseline. Directions indicate temporary changes over the medium term; not static/permanent views; 2. World Bank; 3. Average Brent crude oil price, Statista. Source: BCG analysis. Note: These analyses represent only potential scenarios and are not intended as a prediction or forecast

Six 'no regret' moves to navigate uncharted territory



Embed
geopolitics in
decision-making



Build supply
chain resilience



Invest in people
strategy



Innovate
as a hedge



Reinforce
cybersecurity



Accelerate
climate action

Note: These analyses represent only potential scenarios and are not intended as a prediction or forecast
Source: BCG analysis

Nikolaus Lang

Global Leader - Global Advantage Practice
Boston Consulting Group

Contact: Lang.Nikolaus@bcg.com