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Good afternoon. Welcome to our session on the future of geopolitics and business. This morning we heard an array of insights from the perspectives of institutions, governments, and religious organizations. In this afternoon's session, we will explore issues related to the new global reality with an outstanding panel of business leaders who cover diverse geographies around the world—from Europe to Africa to the Middle East. They will discuss with me the current and future impact of geopolitics on business.

I will start with a brief introduction to the topic, and then we will proceed to a panel discussion. I would like to begin with a series of facts and figures that will help us focus our subsequent discussion on the intersection of geopolitics and business.

This morning, we heard a lot about the Ukraine war from governmental, religious, and philosophical perspectives. The Ukraine war has had a powerful and widespread material impact. It is the biggest humanitarian crisis in Europe since 1945: 12 million refugees on the move, 7.7 million residing outside Ukraine as of October 22, 2022. We have also seen destruction on a massive scale, and with current estimates for the cost of reconstruction in Ukraine ranging from $800 billion to $1.1 trillion. Global hunger is another potential side effect of the war, as 1.6 billion people worldwide depend on Ukrainian and Russian exports of wheat, cereals, and fertilizers. Last but not least, Europe depends – or, I should say, depended – on 150 billion cubic meters of gas imports from Russia annually.

When I talk to business leaders around the world – and I have spoken to more than 200 executive committees and boards since February 24, 2022 – one question comes up repeatedly: why is the impact so large if Russia, Ukraine, and Belarus represent only about 2% to 3% of global world trade? These three economies are in some respects marginal in the global trade structure, and they are even less significant for the US, which conducts only about 1% of its trade with them. The corresponding figure is 5% to 7% in Europe and 2% to 3% in China. Why then is the disruption of the supply chain from Russia and Ukraine so fundamental?

It is because the economic picture I have just described is wrong, or at least seriously incomplete. Russia, Ukraine, and Belarus play an outsized role in global trade for specific critical commodities, including anthracite coal, pig iron, plutonium, nickel, fertilizers, wheat, and other cereals. All of these commodity groups have been massively disrupted by the economic sanctions imposed on Russia after the invasion of Ukraine. Of course, if you pull out one-third or one-half of the world's trade overnight, you fuel inflation – and if you look at today's inflationary pressures, four key supply chains are driving it: the energy supply chain, the agri-food supply chain, the metals and mining supply chain, and the semiconductor supply chain.

How will this conflict end? How will it continue? At BCG we see two likely scenarios for Ukraine from a governmental, military, and economic perspective. One scenario, which we call “Freeze in Place” or “Korea 2.0,” is a ceasefire founded on some kind of political arrangement and resulting in some kind of stabilization of the economic volatility we have seen over the past few months. That is the positive scenario. The negative scenario, which we call “No End in Sight” or “Afghanistan 3.0,” involves a continuation of ongoing sanctions, further pressure on macroeconomic conditions, and open-ended economic volatility.

Another geopolitical hotspot is China. At the 20th Party Congress in China in October, President Xi Jinping announced a grand future for China: the doubling of GDP per capita through 2035, the development of high technology in China, and the major international role of China in its pursuit of the One Belt, One Road initiative. But China faces choppy waters ahead: economic slowdown, ongoing COVID-19 challenges, and geopolitical tensions.

When BCG talks to business leaders, they often ask what the current situation means for their business and how they should prepare for the future. We have developed four scenarios for the world in 2030, which describe the world. As you know, there is always the same problem with scenarios—that they are generally right but precisely wrong, so the idea is not to tell you what the world will look like but to show you four potential perspectives on what the world could look like.

The first scenario, which we call “Back to the Future,” refers to what Thierry this morning described as the unique time between 1989 and 2008, when the world seemed flat, institutions such as the IMF, the World Bank, and the WTO were functioning smoothly, and free trade and democratic values were dominant.

The second scenario, which we call “Limited Stalemate,” anticipates a situation in which the Ukraine war becomes a frozen conflict, China steers clear of it, and its continuation creates substantial economic instability for many years to come.

The third scenario, which we call “The Tripolar Competition,” is premised on the emergence of three blocs: one consisting of the Western countries, including the US, Europe, and potentially Japan; an Eastern bloc organized around China, with or without Russia; and a third bloc of countries, including India, several Middle Eastern nations, and much of Africa, playing a more non-aligned role – although we probably won’t see a re-creation of the non-aligned movement founded in 1961.

The fourth scenario, which we call “Global Escalation,” would involve a war in Europe plus a war in the Indo-Pacific. In this regard, of course, we have discussed the risk of tensions around Taiwan today.

As I mentioned earlier, I have shared these scenarios with about 200 executive committees and boards around the world, from Chile to Japan. When I ask people which one they see as the most likely, most of them point to a future somewhere between “Limited Stalemate” and “The Tripolar Competition” – between 42% and 45% favoring each of those two scenarios.

The rest consist of a few optimists who favor "Back to the Future" and a few pessimists who expect "Global Escalation."

What do these scenarios mean for the economy? When we move away from "Back to the Future" and toward any of the others, we see a degradation of the world's economic and political situation. Whether we focus on GDP growth, inflation, global growth, or the whole dimension of climate change, the farther we move away from our traditional scenario, the more pressure we will see on key economic impact factors that are highly relevant for the business leaders on our panel.

In my view, there are six dimensions in which business leaders must act in the emerging world, and one of them involves embedding geopolitics in corporate decision making. This might sound normal to many of you, but let me quote the CEO of a large European company whom I met in Davos in May. He told me, "Nikolaus, ten years ago, digitalization appeared on my agenda; five years ago, sustainability appeared on my agenda; geopolitics appeared on February 24." That shows you how recently corporate leaders have come to embrace geopolitics in their decision making. Today, the six crucial dimensions are geopolitics, supply chain resilience, investing in people and strategy, innovation, cybersecurity, and accelerating climate action.

I would now like to discuss these six topics with our panel of eminent business leaders, as well as the impact of the newly fragmented world on their businesses.