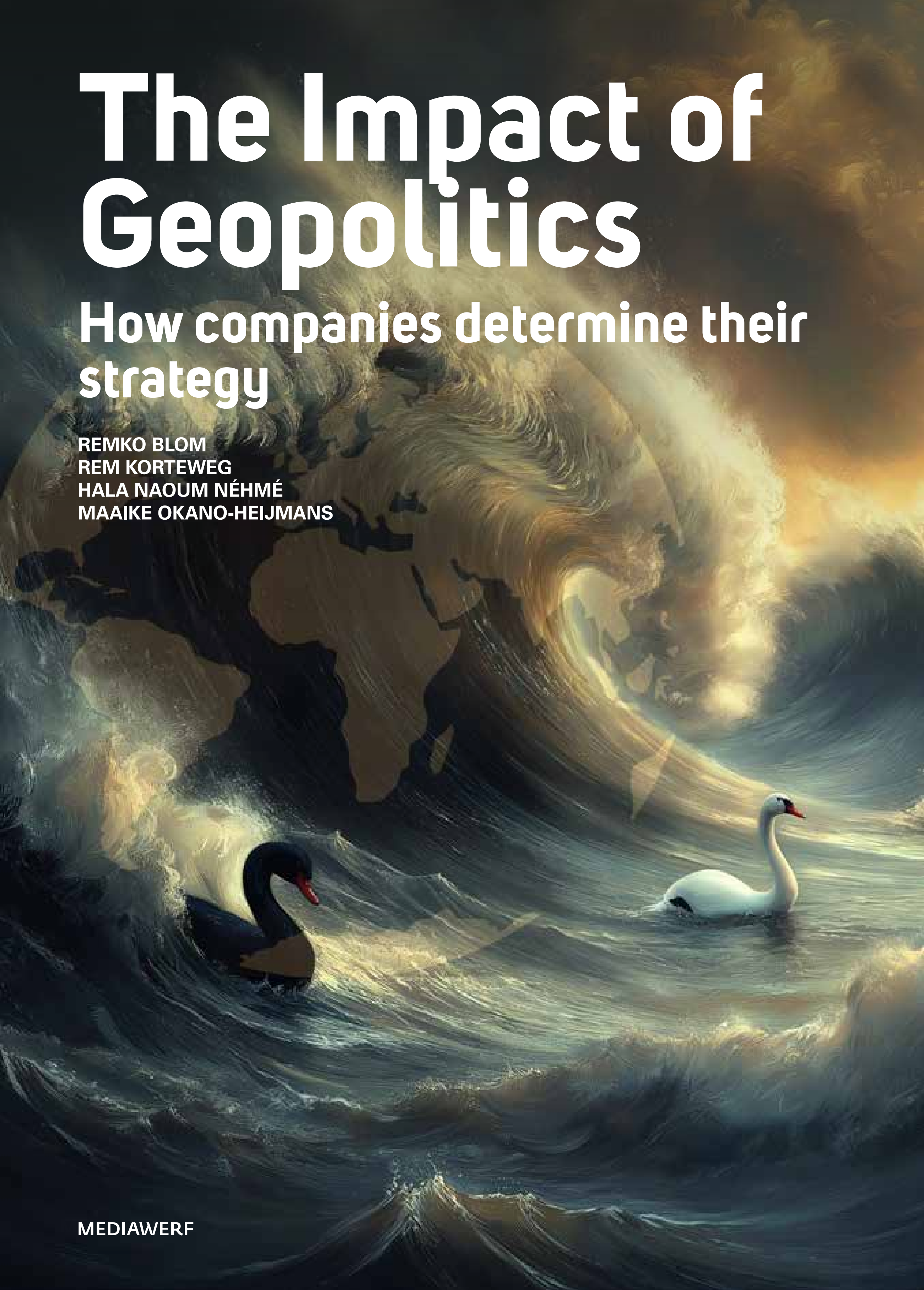

The Impact of Geopolitics

How companies determine their strategy

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FOREWORD

This is the report on a comprehensive and in-depth study into how larger, internationally operating Dutch companies anticipate geopolitical changes and embed them in their strategy and organisational structure.

While geopolitical changes have always been relevant for internationally operating companies, it is self-evident that their impact has increased dramatically in recent years. International developments are moving at a faster pace, but are also proving to be more erratic and unpredictable.

That volatility principally defines the short-term and is mostly caused by more incident-driven events, such as the recent coronavirus epidemic and the invasion of Ukraine. These events may also lead to more structural, geopolitical shifts, such as high energy costs in Europe due to the cutting-off of the supply of cheap gas from Russia.

One-off events such as those call first and foremost for crisis management skills. At Boskalis, for example, we needed to work out how to keep our ships operating worldwide during the coronavirus and how to get our people out of Russia after terminating our projects.

Ironically, the long-term effects of the Russian invasion turned out well for Boskalis, as high energy prices and awareness of geo-dependence have given a strong boost to the energy offshore market in which we operate.

Successfully dealing with these rapid disruptions calls for a high level of alertness and flexibility, something that is fashionably known these days as *agility*. What is needed most is the direct involvement of senior management, which needs to monitor and manage the crisis on a daily basis. It helps that the same management is closely connected to what is happening in their business even in more ordinary times.

Regarding the geopolitical impact, the researchers and authors of this book distinguish between what they aptly call the *weather* and the *climate*. Crisis situations as outlined above fall under the *weather*. Bad weather, of course, is something you can prepare for. You can wear clothes that are suitable for rainy weather, and people living in Florida nail the windows of their houses shut when a tropical storm is coming. If the sandbags fail to hold back the floodwater, you need to pump the water out, clean up and replace your interior. Make sure that you have enough flesh on your bones to stay the course. Financial buffers are crucial for companies with a high risk, international profile. Boskalis, which has a 115-year history, learned this the hard way during the Falklands war when it built a gas pipeline in Argentina that was never paid for.

Bad weather is for all times, although it seems to be becoming more turbulent these days. More worrying for internationally operating Dutch business are the changes in the *geopolitical climate*. Following the relatively peaceful decades since World War II and the euphoric years after the fall of the Berlin Wall, the rise of China and other countries means that the West is gradually losing its economic dominance and - accordingly - its geopolitical influence.

Whereas Dutch companies used to be able to take advantage of the international successes of European reconstruction after the war, this is now only a remote possibility. Europe has been overtaken on many fronts by international competitors from the United States, Taiwan, South Korea and China; often aided by all sorts of state aid that we scorn in Europe.

The old days are now behind us, and internationally operating Dutch business need to be aware of the impact of geopolitical landslides ahead. New, creative business models will have to be sought. More than ever before, international, hybrid cooperation models will have to be developed to access commodities, technologies, labour markets and sales markets.

It might seem that this would make Dutch companies less 'Dutch', but I believe that Dutch entrepreneurial DNA is precisely what will help us, as international companies, to move forward in this huge climate transition.

I hope that this book will be a source of inspiration for you as you find your way in this new, challenging world order.

Peter Berdowski
CEO of Boskalis

INTRODUCTION

From disruptions in goods flows to cybersecurity, from economic sanctions to reputational risks: geopolitics is an important factor for Dutch companies. Geopolitical developments affect every business in the Netherlands, large or small. Sometimes the effect is direct (for instance, export restrictions), and sometimes it is indirect (for instance, rising commodity prices). In recent years, conflict, war and geopolitical wrangling have demonstrated the vulnerability of supply chains and also that geopolitical tensions can lead to rising energy prices and concerns over access to commodities. Companies are questioning whether they can or should continue to operate in markets that may have previously shown promise. US-Chinese trade tensions are driving Dutch companies into a corner. New European, US and Chinese policies are emerging in response to shifting balances of power and technological changes. This can hinder Dutch companies, but also help them, because there is more to geopolitics than risk alone. Geopolitics is also about market opportunities as the global economy adjusts to new political realities. All these developments, however, are forcing companies to make choices and consider how they relate to the changing international environment and how they organise themselves internally.

This book answers the question of how internationally operating Dutch companies can respond to and anticipate geopolitical changes and embed them in their strategy and organisational structure. No two companies or sectors experience geopolitics in the same way. There is no 'one-size-fits-all' solution. We do offer tools companies can use to make themselves resilient, but they are always tailor-made solutions. A number of sub-questions are relevant in this regard and, taken together, they determine the structure of this book:

- What are the characteristics of geopolitical developments, their origins and the dominant factors influencing them?
- What historical insights are available on how internationally operating Dutch companies have anticipated geopolitical tipping points and shifts?
- What tools and methods can companies use to identify and manage future geopolitical risks?
- What lessons can internationally operating Dutch companies learn from their international peers, and how can they ensure that geopolitical trends form an integral part of their business operations?

Companies are reluctant to talk openly about geopolitics and the impact it has on their business operations, and that is perfectly understandable. This topic can be sensitive. Some companies did want to share their experiences with us, but only if they could remain anonymous. The three focus group sessions we organised provided a solution. Given this, it is all the better that some leading Dutch companies were willing to share their knowledge, insights and experiences so that other Dutch companies and their leaders can benefit. Their perspectives and observations have been chronicled in this book and are incorporated into the various chapters. We are very grateful to ASML, Booking.com, Boskalis, Port of Rotterdam and Philips for their openness. In addition to these interviews, the book also draws upon the ample amount of available public sources that detail how Dutch and foreign companies have dealt with different types of geopolitical developments.

The main aim of this book is to instil a sense of urgency in the reader. The achievements of recent decades - globalisation and a relatively peaceful context in which Dutch companies could thrive - can no longer be taken for granted. How a company deals with geopolitics is a crucial element when determining whether a company is successful or not. Dutch companies cannot afford to think that it will all blow over, that they will not be affected, or that they are always the victims. We hope to convey that sense of urgency without being alarmist, and to offer tools that enable Dutch companies to embed geopolitics as part of their organisations.

1. CHANGING GEOPOLITICS, CHANGING WORLD

What are the characteristics of current geopolitical developments, their origins and the dominant factors influencing them? We present two levels at which geopolitics play out: longer-term developments, which we label *geopolitical climate*, and manifestations of geopolitics within those larger movements, or *geopolitical weather*. We consider this distinction useful because dealing with longer-term developments is different from reacting to incidents and events.

A close relationship between businesses and geopolitics

Geopolitics encompasses the international political context in which companies have to operate. It concerns the exercise, especially by states, of political and economic influence, or power politics (Sie Dhian Ho et al., 2021). These power politics are shaped by the dynamic interplay of economic, military, political, technological, social and geographical factors, which takes place in physical and digital space.

Internationally operating companies have a special relationship with geopolitics. On the one hand, they must relate to the geopolitical context. On the other, they are also part of geopolitics themselves; the network of international trade and investment relations affects the balance of power between states and how they exercise power. The economic strength that companies help generate is an essential component of the ability of states to develop military and diplomatic power. Chip manufacturers (such as TSMC and Intel), IT companies (such as Amazon and X/Twitter), and major players in the global energy market (such as ExxonMobil and Gazprom) are examples of international companies that have substantial geopolitical agency. Decisions made in their boardrooms have a geopolitical impact. Companies in the same high-tech and energy sectors can also be a target of third countries. Companies are affected by geopolitical developments, in the form of war and conflict or the manipulation of economic bottlenecks. This can happen politically (such as through the impact of new regulations arising from geopolitical considerations), economically (such as through the availability - or unavailability - of commodities or the opening of new markets), or militarily (if a company faces an armed conflict that jeopardises the safety of its own employees), or through an act of cyber sabotage. In today's geopolitics, states cannot do without companies and vice versa.

War, political tensions between countries, and the broader development of global, political and economic relations are important factors to which companies must relate when discovering market opportunities, securing supply chains and ensuring business continuity. The same can be said of tightened regulations on takeovers and investments, sanctions policies, trade barriers or trade-enhancing measures that may stem from geopolitical considerations. These issues can have a strong influence on decision-making within companies, and all the more so in our interdependent, globally interconnected economy. But apart from the fact that geopolitics can determine a company's external positioning, it also has an impact on a company's reputation and shapes dynamics among employees.

Internationally operating companies must relate to geopolitics, but not every company is affected by it in the same way. This varies from sector to sector and within sectors from company to company. For some companies instability in the Middle East is critical because they are highly active in the region, while new technology regulations from the United States (US) are important for other companies. For other companies, the war in Ukraine or the re-election of Donald Trump is a *game changer*. A major global health crisis also has geopolitical effects. The coronavirus pandemic is a case in point. In some sectors, it led to shortages, or, conversely, exponentially increased demand. The medical tech sector faced stricter reporting requirements and protectionist measures that made sales more difficult, but at the same time there was also government support when supply chain disruptions arose. Philips told us that the pandemic made it clear 'that *just-in-time* supply is no longer feasible and diversification became necessary'.

Geopolitics and international relations

There are various interpretations of geopolitics. For instance, in management literature, geopolitics is often described in terms of risk. David Caldara and Matteo Iacoviello (2022) define geopolitical risks as the threat, realisation and escalation of adverse events related to war, terrorism and tensions between states and political actors that affect the peaceful course of international relations'. But this interpretation is too narrow. Geopolitics is also about the realignment of the international economic and political balance of power, the changing geography of trade flows and the development of policies that change geopolitical dynamics. There is more to this than negative developments or incidents alone.

In International Relations theory, geopolitics is often considered an extension of the Realist school of thought. A 'geopolitical approach' to international relations - like Realism - takes into account the balance of power and is predicated on the assumption that states seek to maximise security by manipulating that balance of power. These analyses take ample account of spheres of influence, as well as the location and exploitation of commodities and resources, economic and industrial capacities, and technological changes. These factors all have an impact on the power that states can exercise (see Waltz, 1979; Mearsheimer, 2001; Taliaferro, 2000; Haslam, 2002). States use their political influence, as well as their military power, to shape their international diplomacy and economic relations in a way that increases state influence and power. Colin Flint writes: 'Geopolitics is the combination of the pattern of economic relations between stronger and weaker states and the way this requires the projection of power by stronger states' (Flint, 2024). Noteworthy authors include Halford Mackinder (1904), US admiral Alfred Mahan (1890) and Dutch-American professor Nicholas Spykman (1942). Another leading expert, Henry Kissinger, placed geopolitics in relation to a specific outcome of international relations, in this case the pursuit of a global balance of power (Sloan & Gray, 2013). He saw geopolitics as an intellectual counterpart to a more ideological interpretation of foreign policy. Kissinger positioned geopolitics as a middle ground between an isolationist US foreign policy and excessive interventionism.

Geopolitics is geographical on the one hand and historical on the other. It is geographical because power politics is exercised in a spatial context. It is about physical and digital space, the constraints placed on that space by mountain ranges, oceans, deserts or the internet, among other things, and the chokepoints (vulnerabilities and pressure points) that may result. It is also about spheres of influence and how they are delineated geographically and where they intersect. But it is also historical, because the geopolitical context in a given location can change over time. The geopolitics of Europe in 1914 is different from those of 2024. How geopolitics has changed the economic landscape in recent decades is covered in Chapter 2. How current geopolitics affects companies is discussed in Chapter 3.

THE IMPACT OF GEOPOLITICS

More than ever before, companies are facing the challenge of developing a strategy that enables them to deal with changing geopolitical developments. The current geopolitical environment has become so complex that Dutch companies with international operations face the question of how they can adapt to it.

This book outlines how companies can respond to, and where possible anticipate, geopolitical developments: from higher commodity prices and export restrictions to cyber security and tensions in the multinational workplace. Commissioned by Stichting Management Studies and conducted by consultancy firm PwC and the Clingendael Institute, the study underlines the importance of making geopolitics a permanent and recurring part of risk and opportunities analyses. After all, the more companies incorporate geopolitics into their own strategy, the more their resilience to geopolitical risks grows. This also puts them in a better position to recognise and exploit the opportunities offered by geopolitical changes.

In this book, researchers Remko Blom, Rem Korteweg, Hala Naoum Néhmé and Maaike Okano-Heijmans provide company management with the necessary tools to determine how geopolitics affects their companies and the options available for dealing with this.

Geopolitics can no longer be ignored in the boardroom, no matter what the size of the company. Building on insights from Dutch multinationals, this book will enable companies in the Netherlands and beyond to prepare more effectively for an increasingly volatile geopolitical environment.

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