

Prepare for the Coming Geopolitical Divide

Forward 

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Earlier this week, President Joe Biden took a secretive trip to Ukraine as part of his tour of eastern Europe. Timed with the one-year anniversary of the start of the war, the president first flew to Rzeszow, Poland, before boarding a train for a 10-hour journey to Kyiv, becoming the first commander-in-chief to visit an active warzone without a US military presence.

His 23-hour visit in Ukraine's capital featured a five-hour meeting with Ukrainian President Volodymyr Zelensky and a tour of the city before returning to Warsaw. On Tuesday evening local time, Biden delivered a speech in which he extolled Ukraine's resilience and the unified support of NATO and democracies.

While the visit and speech were noteworthy on their own merits, they came during a period where the geopolitical battlelines between the Western world and revisionist powers in the East are being drawn. Forward Global has identified how some countries are reshaping the geopolitical landscape in this new era, what this means for the global economy, and how companies can prepare for the upcoming divide.

RUSSIA

A few hours before President Biden delivered his remarks in Warsaw, Russia's President Vladimir Putin delivered his state-of-the-nation speech in Moscow. This was almost a mirror image of Biden's remarks; Putin blamed the West for starting the war and stated that Russia is fighting for "the very existence of our country." As a sign of his desire to escalate tensions, Putin also announced that Moscow was pausing its involvement in the New START treaty. First signed in 1991, START - the Strategic Arms Reduction Treaty - was a bilateral agreement between the US and the Soviet Union to reduce and limit strategic offensive arms. New START was signed in 2010 and aimed to further that limitation, though it expires in 2026. Still, Russia has frequently violated the treaty's terms (such as by not allowing inspectors), and this announcement makes it increasingly clear that Russia will likely not enter into new negotiations with the US over their respective strategic nuclear arsenals. Taken together, Putin has made it clear that he is not interested in off-ramps or de-escalation, but rather continued conflict. While military observers believe the war could easily last another year or two, many political observers are starting to consider that a new Cold War between America's erstwhile foe may be rekindled.

CHINA

Also announced this week was an upcoming visit to Moscow in the coming months by China's Xi Jinping. Coming on the heels of a Chinese surveillance balloon traversing the continental United States, tensions between Washington and Beijing are elevated, with the growing concern that Xi's trip to Russia may include a package of lethal military aid. Secretary of State Antony Blinken, UN Ambassador Linda Thomas-Greenfield and other senior administration officials have made it clear that Chinese weapons entering the Ukraine war is "unacceptable" and "would cause a serious problem for us and in our relationship." From Chinese warplanes buzzing the dividing line in the Taiwan Strait ahead of then-Speaker of the House Nancy Pelosi's August trip to Taiwan, to forcibly removing his predecessor from the Chinese Communist Party's (CCP) 20th National Congress last October, and his steadfast support for Putin's invasion of Ukraine, Xi Jinping is steering the People's Republic of China (PRC) on a collision course with the US, and potentially Europe.

POLAND

Biden's visit to Warsaw was the second time within the year that he visited Poland. Under President Andrzej Duda, Poland has proven itself a key member of the NATO alliance, at once facilitating the transfer of arms and material into Ukraine and helping bring refugees out. Even when an errant Ukrainian air defense missile killed two Polish citizens on the Polish side of the border in November, cooler heads prevailed and the war did not spiral into a direct conflict with NATO. Warsaw has played a pivotal role, both in public and behind-the-scenes, to rally Western support for Ukraine. As the conflict is promising to reshape the European security environment, Poland is demonstrating that it is ready, willing and able to take a leading role, shifting Europe's strategic center of gravity eastward.

MOST OF THE WORLD

One sobering reminder is that though the Ukraine war remains a primary issue for the US and Europe, it does not register with most of the world. Those countries in the US' orbit see the war in a similar lens as Washington: that of a revanchist, authoritarian power initiating an unjust war against a democratic country and, in doing so, posing the greatest threat to the post-World War II order in generations. Yet, for many others, Russia still represents a source of millions of barrels of oil exports per day and the second largest exporter of weaponry in the world.

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In addition, inflation and Covid-19 still loom large.

China is increasing its influence in Latin America, but this has been a dual-edged sword for the region. In Mexico, CCP companies are forging a major footprint in telecom, construction, minerals, and other areas. This has made Mexico more reliant on the PRC, the same force flooding America's southern neighbor with fentanyl and fueling organized crime. Western Europe and the US, which have far more robust economies, are just beginning economic decoupling from the resurgent nations. It will take developing countries far more time and external persuasion to separate from the PRC or Russia.

COMMERCIAL IMPLICATIONS

Businesses from all sectors will face implications from the international community's emerging division. Nations will place a greater focus on "ally-shoring" or "near-shoring" critical industries and infrastructure deemed essential to national security, including natural resources like steel and aluminum, critical minerals,

pharmaceuticals, semiconductors, and a range of other products. With this focus will be additional incentives to "invest at home." Supply chains will be redirected and insulated; Biden's call to "Buy American" demonstrates this.

At the same time, national governments will ramp up efforts to restrict outbound exports to perceived enemies. America's export restrictions on semiconductors to China and potential restrictions on outbound investment in certain Chinese industries are just the beginning of this trend. There will be increased regulatory, legal, and reputational risks for companies that are perceived to be exporting products that benefit our adversaries. Our geopolitical rivals will likely do the same.

Unfettered globalization and free markets will take a back seat to national security concerns. As the global market may seem to shrink as two rival zones of power re-emerge - that of the West and the East - American companies should prepare to make business decisions with geopolitical factors in mind.

KEY TAKEAWAYS

1. **The global geopolitical landscape is bifurcating. An emerging cold war between democracies and authoritarian states will soon become even more profound. President Biden's recent trip to Kyiv and President Xi's announcement that he will soon travel to Moscow underline this notion.**
2. **The growing geopolitical divide will have significant implications on the vast majority of industries. "Nearshoring" and "ally-shoring" will become the norm and national security-related factors will dominate international trade arrangements.**
3. **American companies' business decisions will increasingly have to consider geopolitical factors. It's time to get a playbook ready. applications Web.**

