
How Shifts in Geopolitical Power Will Affect Corporate Governance



By **Sonia Tatar** , Executive Director, INSEAD Corporate Governance Centre

Corporations will have to re-evaluate their values and norms to maintain their longevity and success in the new world order.

While the world experiences some promising trends such as unprecedented freedoms, prosperity and connectivity, there is also a wave of external forces creating a growing sense of tension and uncertainty, urging boards to face new and unpredictable challenges on the global scene.

Fast-paced change is expected to continue as the United States struggles to maintain supremacy and resurgent nationalism sweeps the globe. Trade policies are shifting, globalisation is crumbling and the democratic model is losing its sheen.

Instability blurs the strategic posture of businesses and creates complexities in the corporate governance landscape. There is a feeling, as HE Jawed Ashraf, High Commissioner of India to the Republic of Singapore, noted at a recent INSEAD Corporate Governance Centre's forum, "that we are all being untethered from our moorings."

“It is no longer a case of history moving forward in linear fashion,” Ashraf said. “We are entering an unpredictable world where we will all have to reckon with finding strategies that enable us to prosper in different sets of circumstances, different markets and different environments.”

“While some of the decisions corporate leaders take are within our control, very often what impacts us most are the processes beyond our control.”

These processes must be understood by firms with global or regional footprints, and particularly by their boards of directors, the ultimate decision makers, who must navigate the shifting landscape’s evolving risks and opportunities.

The rise of China

The tensions from China’s rise to power and the U.S.’s desperation to maintain its supremacy are being felt across the world and are at the centre of every debate today.

“There’s been a lot of focus on the U.S.-China trade war but I think that’s a symptom of a deeper problem,” said Ashraf. “China would like to reshape the global order (or at least those elements that act against its interests or constrain its rights) as the U.S. persists with strategies to prevent the rise of another feared competitor.”

U.S. President Donald Trump has put in place protectionist policies with the threat of heavier tariffs to come. In theory, this is to reduce the enormous trade deficit the U.S. has with China, but, in reality, the main goal often seems to be to decouple the U.S. and Chinese economies, creating two distinctive systems and power centres.

“No one can predict what is going to happen in the U.S.-China relationship, because the competition is happening in more than one dimension,” said Kishore Mahbubani, Senior Advisor (University & Global Relations) and Professor in the Practice of Public Policy at the National University of Singapore. “As well as economics, there is a political dimension, a military dimension, a cultural dimension and an emotional dimension. The biggest challenge for America is that the Chinese consider all these dimensions together. They consolidate and play the long game. They think strategically and in comprehensive terms.”

When it comes to economics, no one debates whether China will replace the U.S. as the world's largest economy; the only question is when it will happen. Mahbubani says the best way for the U.S. to position itself for this scenario and put pressure on China would be to strengthen multilateral rules, institutions and processes.

"The reality, however, is that America today has the least multilateral administration in its history. The paradox is that, while it is now in China's interest (as it becomes more powerful) to have increasingly fewer multilateral constraints, the Chinese, in their search for order in the global system are still trying to support multilateral institutions."

The two superpowers have profoundly different political systems; they clash on matters of global governance; and have deep-seated reasons to mistrust each other. Despite this, China and the U.S. are not as intrinsically hostile to each other as were the West and the Soviet Union. And while there is a mismatch in military power (China accounted for 13 percent of annual global military spending in 2017, compared to 35 percent for the United States according to SIPRI), there remains a high degree of economic interdependence. So, the chance of this sliding into a full-blown, "hot" war is slim. Confrontations and frictions between the superpowers will, however, cause further uncertainties for corporations and boards.

Breakdown of global networks

The worst-case scenario for corporations, should the U.S.-China hostilities escalate, is the potential threat to global supply chains and the weakening of the global ecosystem. Two competing systems might reign simultaneously.

"This global network, which relates to trade as well as the supply chain, follows a set of rules: Everything flows, everything connects," said Mahbubani. This system shaped a complex international structure that has helped in the acceleration of globalisation and the opening of further markets over the last decades.

"If the Chinese-U.S. relationship deteriorates and there is an economic decoupling, we could find ourselves with a Chinese-based network around the world dependent on Chinese channels, and another set of supply channels made by the Americans," added Mahbubani. We will enter then an era of spiralling competition that will create profound complexities and roadblocks, changing the stakes of today's paradigm of trade for

corporations and consequently slowing globalisation.

The breakthrough of regional powers

As protectionist policies curb free trade and global networks weaken, corporations are likely to see even greater emphasis on regional economic partnerships. Relatively strong, small but fast-growing powers will rekindle regional ties and compete for influence.

As these clusters of small powers increase in importance, “global institutions will be replaced increasingly by regional institutions through which regional accord will be determined”, Ashraf said.

Corporates will need to reconcile the duality dynamics in the boardroom raising questions such as:

- What role the subsidiary board will play vs. the HQ or holding board?
- Where does the global vision of corporates sit vs. the regional or even local vision?
- Who owns the decision making? What is centralised and decentralised?

“Many of the new powers will not be rich and this will create all sorts of problems and challenges, which the corporate sector will have to be aware of,” Ashraf said. This will necessitate an adjustment in terms of strategic planning and future outlook.

Developing countries will see a greater assertion of identities. Structures based on their colonial past will be broken down, with no overriding global values systems to guide their development, no harmonisation of norms and no synergies to be leveraged. Boards, then, will be expected to be more agile and resilient in order to withstand mounting scrutiny and tensions.

As the changes occur, there will be a divergence of political ideals. Democracy and liberal order will no longer be seen as the dominant idea for political organisation or as integral factors for success. Instead, developing countries will be looking at examples of leadership outside those presented by the West, to countries such as China and Russia. And as the idea of a global democracy changes so too will the sharing, and expectation, of global norms, global binding rules and international standards. This will in turn impact governance policies and codes.

Rising nationalism

The search for identity is also being felt across the developed world, as evidenced through the nationalist fervour sweeping through Europe and North America today. Exacerbated by growing income inequalities, surging populism is leading to subtle changes in policy, both left and right, with the potential to wipe out value for companies and increase stakeholders' activism. Such activist movement can put more pressure on corporations and will certainly have a direct impact on governance structure, board composition, role and responsibilities.

There are also signs of economic nationalism. "This already is being used as an instrument of power by U.S. President Donald Trump," said Ashraf. "In fact, I think we will be seeing far greater state intervention, across the world, being used to drive the economies, whether in the U.S., China and even India."

Letting go of power

For some time now, the economic centre of gravity has been shifting towards the East. The West's power to incentivise behaviour or to be a source of inspiration is on the decline, Ashraf notes. There is now a growing conservatism and a much higher level of assertion of identity. Going forward, Western companies will have to accept that the new world order will be a very different place. Directors ought to embrace this shift and change the course of action of their corporations.

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