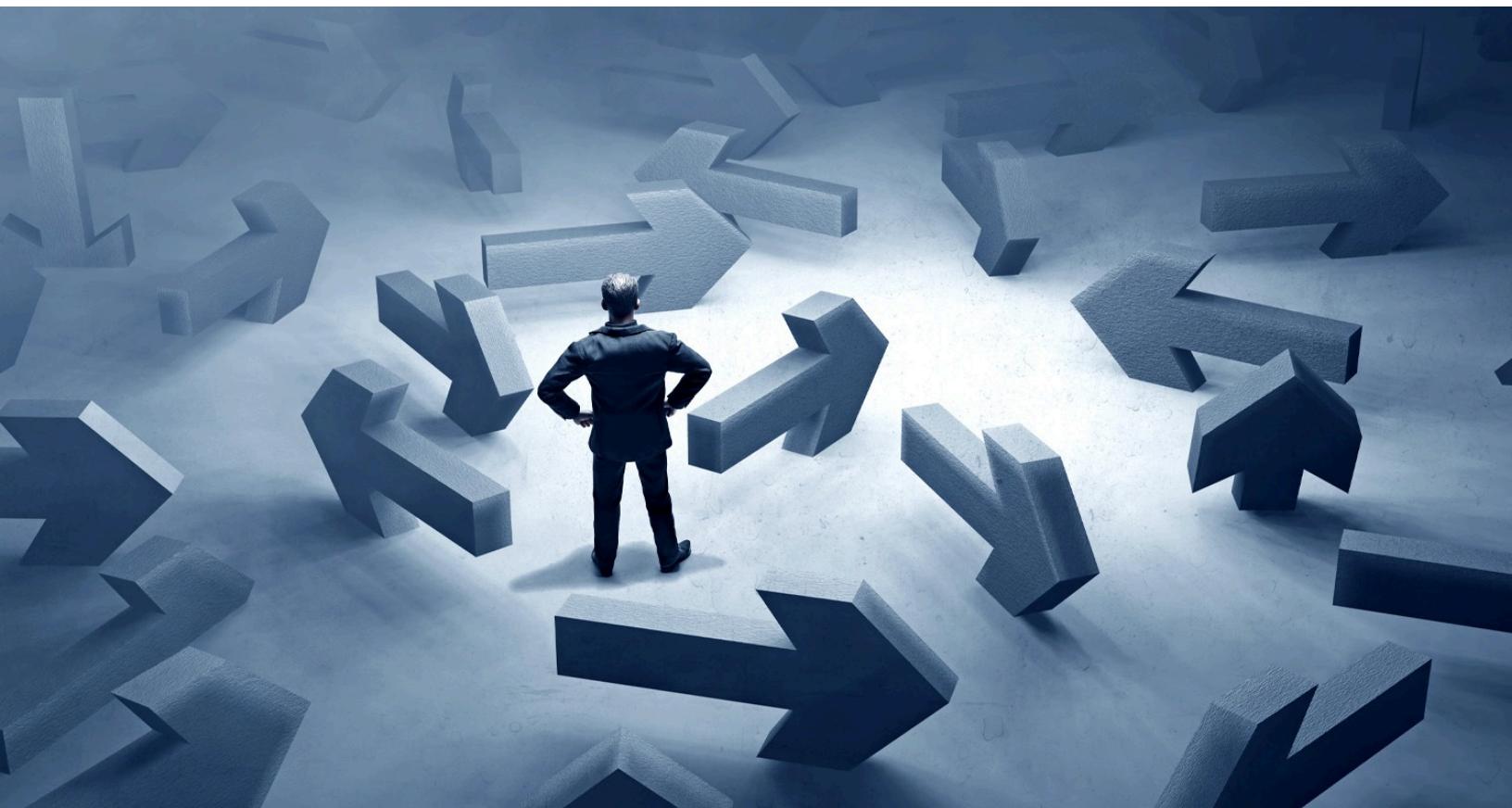


Geopolitics Practice

# How CEOs are responding to geopolitical uncertainty

When the rules of global trade could change any day, how do you make decisions? McKinsey experts report from the business frontlines of geopolitical turmoil.



**The recent wave of tariffs**, trade negotiations, and geopolitical tensions ground the world's businesses to a halt—but only for a while. Business leaders cannot give in to paralysis; they need to analyze, plan, and, in some cases, act urgently. We invited seven McKinsey leaders whose profiles span diverse geographies and industries to share the tactical or strategic moves their clients are making, what they're most worried about—and what they may not be worried about enough.

## Questions keeping CEOs up at night

**Shubham Singhal:** Uncertainty about trade policy is obviously high on the list. More fundamentally, CEOs are feeling uncomfortable. These individuals are generally driven to push ahead and make decisions, so they're asking, "How do I lead during this time?" One CEO used a sports analogy: If you're a track athlete, you have fixed points and firm ground. If you're a surfer, there are no fixed points or firm ground. He wondered if there were any fixed points in the current uncertainty toward which he could navigate. However, this is more of a surfing scenario: Business leaders have to learn how to ride the waves.

**Sven Smit:** CEOs need to absorb and make sense of large amounts of change—what is noise, what is signal, what you should act on now, what you should wait to act on. Will new governments reverse course in a few years, or are we facing something structural and fundamental? Then, of course, they need to analyze each geography, each supply chain, each product category. We haven't seen these types of developments for 35 years, so CEOs don't have the experience through which to filter this reality. And the signals are not clear: Experts disagree about fundamental things, such as whether large trade deficits are good or bad.

**Cindy Levy:** The first question I get when I speak to CEOs is, "How do I get my own intellectual handle on what's going on?" Whereas once they engaged on these topics at a steady but low level, they now realize they need a strong grasp on all the developments and a "house view" on which eventualities they need to plan around, at least on a contingency basis.

**Shivanshu Gupta:** Asian companies worry about the concentration and vulnerability of their supply chains. For example, rare earth materials supply chains are becoming constrained due to geopolitical tension between the United States and China, affecting industries such as automotive and electrical equipment. Some automakers in Japan, Korea, and India are already so severely affected that they are considering scaling down production. Business leaders are additionally concerned that the many disputes in the region could flare up.

## Models of response: The short term and the long term

**Asutosh Padhi:** I see two categories of business leaders. One group views this moment as an opportunity to reposition the company for value creation for the next decade and are weighing strategic moves they could start to make. They realize that any key assumptions developed more than six months ago have to be revalidated. They're thinking about how the changes in

global trade will affect their supply chains, customer footprints, operations, and the back office.

The other group is waiting for the fog to clear. They want trade agreements to be in place before they make any moves.

Which group you fall into depends in part on your industry and starting position relative to your peers. For example, when we looked at the US automotive sector, we found that the manufacturing and supply chain footprints look dramatically different across all the original equipment manufacturers. Those that are relatively more exposed from a risk standpoint or that have significant opportunities may be wise to start making changes now, whereas those that are comparatively well balanced can afford to wait.

**Ziad Haider:** There's a risk of overindexing on the near-term volatility and not thinking strategically about the long term. Tariffs may be the current focus, but leaders should think about how multiple drivers—including broader geopolitics, global trade flows, technological advances, the energy transition, and demographics—are evolving, and the interplay between them. They need to develop multiple scenarios factoring in these drivers and understand the effect of each scenario on their industries from a risk and opportunity lens, then assess their choices in terms of strategy, capabilities, and talent.

**Shubham Singhal:** Some business leaders are acting despite uncertainty. For example, an electronics company has to make decisions about pricing for the holiday season. They may decide to adjust pricing on products in the waning part of their life cycles because they're willing to take some volume losses on those. With new lead products, however, they are taking their time to determine the prices.

Ultimately, CEOs need to understand which geopolitical factors to prioritize. If you're in semiconductors, export controls matter, but if you make T-shirts, probably not. Second, they need analytics to help them decide whether a particular scenario related to those important factors could affect them significantly. If not, don't clutter your thinking; focus on what can meaningfully move your business in terms of direct economics and relative competitive advantage. Third, they're putting in place event boards that help them track trade negotiations, tax legislation, interest rates, expedited approvals, or incentives that matter. When one of those events transpires, they have plans in place.

**Sven Smit:** In the microscope view, our clients are dealing with tariffs in the here and now. At the telescope level, the world is investing trillions of dollars in the future of AI, modular construction, e-commerce, robotics, and energy. While you're dealing with the short-term issues in the microscope, are you looking enough into the telescope? Because the future in that telescope is going to be pretty bright, in my view, and it makes sense to invest in some areas now. Can you do that while you're dealing with the issues in the microscope? That's the balancing act that business leaders must manage.

**Cindy Levy:** Many CEOs are intensifying their engagement on public policy and bringing in

government relations specialists to give them a more sophisticated view on how to have the right conversations. For example, companies that are considering putting capital into the US are not waiting for their countries to negotiate trade deals but are engaging directly with Washington to make the case for their investments' economic impact. They are also investigating industrial-policy incentives. There are many more government incentives available around the world, so there's more at stake.

Meanwhile, business leaders are planning their operational responses. Some have shifted suppliers or set up [nerve centers](#); some have focused on managing tariff expenses, ensuring their products are appropriately classified with documentation in place. Some of my clients are starting strategic pivots, diversifying supply chains to be more resilient, onshoring manufacturing if the US market is critical to them, or staking claims in [growing trade corridors](#), such as between Europe and ASEAN [Association of Southeast Asian Nations] or between the Middle East and Europe. They're treating strategic options they may have viewed as being further out as immediate opportunities or mitigations.

**Shivanshu Gupta:** Most Asian companies have shifted from immediate reaction to the tariffs to addressing longer-term competitiveness. Their response has varied based on the extent of their exposure to trade-related shifts and the "rigidity" of their footprints. For instance, Asian automakers that have a large US presence have started redirecting new capacity to the United States, and many pharma companies are extending R&D internationally while largely maintaining their manufacturing footprint, for now. Companies that have more "movable" supply chains, such as consumer durables, are also thinking through long-term reorganizations of supply chains.

## Opportunities and risks in trade realignments

**Nelson Ferreira:** In Latin America, business leaders expect that as China-US trade flow changes, China's overcapacity could flow into large Latin American markets like Brazil. In the past, this happened primarily in commodities, but we're starting to see it more with cars, electronics, and other advanced-industrial products. That excess capacity typically comes at much lower prices, with which local producers cannot compete. My clients are wondering how that will affect their value chains: "Will my product get replaced by imports? Will the product of my client or the client of my client get replaced by imports?"

On the opportunity side, companies, particularly in Mexico and Central America, are wondering if they can replace some of the China imports to the US with their own manufacturing. Some medical devices and electronic equipment for the US market are cheaper to produce in Central America than in China, and Costa Rica is already a large producer for the US market. Consequently, some companies are considering capacity expansion and growth.

There are many such realignments. For example, the US has been a big exporter of soybeans to China, but China increased soybean imports from Brazil after the US government imposed tariffs. Countries such as Costa Rica, Guatemala, and Mexico are starting to replace China's

industrial capacity. Latin American governments are also hoping to develop new trade corridors with India and Japan.

The impact of all these shifts will depend on a company's competitive position. Enterprises hoping to replace US imports from China will have better odds of striking deals if they act quickly. It comes with some risk, but there's value in being proactive.

**Sven Smit:** With the shifts in global trade, business leaders have focused on inventory management: prestocking, destocking, and reflowing stocks across the planet to create buffers against shocks. They are also contemplating or implementing price changes. Some leaders have already made profound choices about where to invest—in some cases, to invest behind the US shifts away from China; in others, to invest into China. Some of these opposing decisions cannot both end up being right, but at this point, we don't know which one will be.

**Cindy Levy:** Several trade corridors have strong tailwinds, such as South–South trade or China–ASEAN trade. Global companies should be looking at getting access to some of these “sure bets” in global trade. There's a propensity to focus on the major economies where you need to play defense, but I think we'll soon see that pivot to more offensive moves.

**Ziad Haider:** The uncertainty around trade makes many companies unsure what and how much to shift. If, for example, the supply chain diversification strategy in Asia led to a shift to Vietnam, and Vietnam now faces a 20 percent US tariff rate, the company needs to factor in a 40 percent transshipment rate if products manufactured in Vietnam have Chinese content. Yet the terms of that 40 percent rate and the share of Chinese-made components that would trigger it have not been defined, which clouds the calculus around Vietnam.

**Shubham Singhal:** Business leaders need to manage risk, but they should also be alert to opportunities opening up. The CEO of a consumer products company I recently spoke with mentioned that the rising costs will make it difficult to manage margin. In the subsequent discussion, we came to the conclusion that, however the company is affected, its competitors will be hit harder. Smaller players had been gaining share in recent years, but tariffs and other trade complications make the burden of managing diversified global supply chains harder for them than for large companies. As a result, the team is discussing potentially acquiring a smaller competitor.

**Shivanshu Gupta:** The current trade realignment is creating opportunities for Asian companies in industries such as semiconductors, automotive, and chemicals to scale up. At the same time, some Asian countries are likely to bear the highest US tariff, so business leaders are bracing for that and for second-order challenges such as raw material shortages that may make fulfilling even domestic demand difficult.

## Multinationals at a crossroads

**Shubham Singhal:** For about 70 or 80 years, the direction of travel for multinational companies, with good results, was to be more integrated globally in functions and capabilities. Now, in a geopolitically challenged world, [multinational enterprises are weighing changes they should make to that model](#). How can I exit fast if I need to? On the flip side, if opportunities open up, how can I capture them quickly? How do I comply with the rules that are increasingly more locally or regionally driven? Are all the shared-services functions, such as data and HR, still viable? What does my organization need to look like in five years?

**Ziad Haider:** ["Can my company remain global and if so, how?"](#) remains a core question I hear from boards and CEOs. Multinationals have been adjusting their business models for some time in response to volatility but are now making additional moves to build geopolitical resilience. For example, many companies have already executed a set of moves we call "structural segmentation" around their supply chains, R&D, data, and entity ownership and structures, such as setting up a separate tech stack in China or ring-fencing or relocating their R&D capabilities in or from geopolitically sensitive markets. However, today we're seeing an acceleration of investment in the United States or expansion of production activities there. For state-linked entities or sovereign wealth funds, this is not only commercially driven but also a diplomatic and strategic imperative.

**Shivanshu Gupta:** Asian multinationals are already pursuing adaptations to their global footprints. For example, automakers are directly investing in US manufacturing rather than in plants in Mexico, Indian pharmaceutical companies are recalibrating their research and production footprint between the United States and India, and IT services companies are increasing their local hiring in high-demand markets. Asian multinationals generally see the changes in the global trade order as an opportunity to expand their global presence while maintaining supply chain origins in their home countries.

**Nelson Ferreira:** Many global Latin American companies have adopted the "glocalization" model: Indian factories producing for India, Chinese factories producing for China, US factories producing for the US, and so on. Producing locally for each regional market shields you to some extent from tariffs and creates a global company that is vertically integrated in each country rather than having one manufacturing hub for the entire world. One company that manufactures electrical engineering equipment expanded quite aggressively into Mexico, the US, India, and China, but under this glocalization model of regional vertical integration. This approach may become more popular because of myriad geopolitical considerations, such as Arab countries buying or not buying from you depending on your relationship to Israel and vice versa, or Eastern European countries doing business with you or not depending on your stance toward Russia.

**Asutosh Padhi:** For multinationals based in the United States, no matter the industry, the US will continue to be a critical market. These businesses have unparalleled access to capital and

innovation. The biggest uncertainty is what posture to adopt relative to China. Can they continue to meaningfully compete in China as multinational companies? Second, can they capitalize on some of the biggest growth opportunities, particularly in India and ASEAN countries? Clients often ask, for example, whether the Indian market could replace China. It's unlikely, but India plus the ASEAN region might amount to around 50 percent of the Chinese market over the next decade.

## Concerns flying under the radar

**Nelson Ferreira:** Throughout history, waves of protectionism were always followed by inflation and lower growth. This typically causes instability, particularly in emerging markets. Inflation is already a big issue in some Latin American countries, and food inflation is rising rapidly because of extreme weather events.

**Sven Smit:** We're heading into an era of a political economy. Business leaders always prefer for politics and the economy to be separate, but that's less and less the case. The ability to deal with the political and economic sides of the system simultaneously is a skill that every CEO has to develop more fully. Business leaders need to maintain closer contact with governments to better predict and even influence what happens.

**Ziad Haider:** I see some myopia around both geopolitics and geoconomics. On geopolitics, business leaders tend to focus on what I call the three "gray rhinos," or known risks with medium to high impact: US–China strategic competition, Russia's invasion of Ukraine, and ongoing conflicts in the Middle East. However, more localized tensions can flare up that quickly and disproportionately affect the company's operations if the events occur in locations where you have significant capital investment.

On geoconomics, the focus on tariffs may be obscuring other critical issues. Export controls, for example, affect access to chips and other high-end technologies critical for many companies and countries' economic-development agendas. The trajectory of the US dollar, energy security, and tensions around control of critical infrastructure are other key elements of the geoeconomic chessboard. It's important for boards and corporate leaders to have frameworks and processes to oversee the top risks and an institutional ability to monitor and respond to flashpoints.

**Cindy Levy:** The impact of recent geopolitical events is not just the cost of tariffs. Other economic forces could rock the global economy. Will consumer demand fall? Will business-to-business demand fall? Will there be a broader economic slowdown induced by tariffs? Another big question is the impact of the long-term fiscal trajectory of the US economy. As things stand, signs point to continued unsustainable deficit spending for the foreseeable future.<sup>1</sup>

Additionally, there is a big delta in global firms on risk management. The best firms can create insightful geopolitical scenarios, model the economic consequences for their markets and their own financials, then have mitigations and event-based triggers ready if the scenario comes to

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<sup>1</sup> Andrew Lautz, "What does the One Big Beautiful Bill cost?," Bipartisan Policy Center, July 23, 2025.

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pass. The other risk management principle where there's a big divergence is in concentration limits on operations. For example, how much of my manufacturing is in certain locations for every major supply chain category? Companies need to determine the appropriate concentration limits for certain countries in the same way that banks have concentration limits on their loan books for regions or sectors.

**Asutosh Padhi:** Most business leaders think of geopolitics as one thread. The reality is that geopolitics, AI, and other technologies are starting to converge, because what's going on in geopolitics is partly about national security and partly about economic independence and technological leadership. Many countries are starting to think about their own sovereign cloud ecosystems and their own sovereign AI.

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