



Michael Froman on the business implications of geopolitics

January 10, 2025 | Interview

The president of the Council on Foreign Relations explains that companies today are facing the most complex international environment in 80 years.

Power politics. Wars. Trade battles. Climate change. Pandemics. Geopolitics is increasingly influencing how businesses operate, pushing senior leaders to look well beyond the walls of the corner office. Council on Foreign Relations president Michael Froman has spent his career bridging these worlds, from senior positions in the administrations of Presidents Bill Clinton and Barack Obama to executive roles at Citigroup and Mastercard and serving on the board of The Walt Disney Company. In an interview with McKinsey senior partner Shubham Singhal, Froman discusses the shifting world order, what kind of global economic model may emerge, and what it all means for organizations.

This conversation is part of a series of interviews with leading geopolitical thinkers and practitioners, held during our inaugural summit on geopolitics on December 2, 2024.

Video

‘The most complex international environment in 80 years’

Shubham Singhal: The world as we know it is shifting. And from a business standpoint, while for a long time we were able to largely ignore geopolitics, now it's really at the forefront. How would you define and describe today's geopolitical economic order and the relationships among some of the major economies around the world?

Michael Froman: This is probably the most complex international environment in 80 years. You've got the reemergence of great power politics. You've got wars not just in the Middle East and Europe but also in parts of Africa, such as Sudan. Most importantly, you've got unparalleled rivalry between China and not just the US but the West more broadly. That cuts across economics, technology, politics, and military dimensions. And then you've got transnational issues like pandemics and climate change that require a degree of international cooperation precisely at a time when international cooperation is probably at its lowest ebb and international institutions are weak and in need of reform. So geopolitics is becoming increasingly important to CEOs, boards, and senior management teams because it's affecting everything from where they put their supply chains to who they can count on trading with and what technology they might use, as well as whether there'll be sanctions or other restrictions on their ability to operate.

Shubham Singhal: Most management teams haven't experienced a multipolar world and might not be prepared to navigate the fragmentation that results from it. Even if you're a company that is not multinational, you still engage with the rest of the world in very meaningful ways and would also need to be prepared to respond and adjust. Do you expect further fragmentation, and what does that mean for these companies?

Michael Froman: We live in a fragmented world, and it's likely to become more fragmented. I actually don't think it's a truly multipolar world—that would suggest there are three or four blocs of countries that do everything together. India is a perfect example of what we're seeing now. It loves to work with the United States on certain issues—technology, investment, nuclear civil cooperation—but loves working with Iran on oil. It loves working with Russia on arms and munitions. It loves or hates working with China, depending on the issue and the time of day. India is part of BRICS,^[1] but also very much at odds with China when it comes to issues such as border disputes.

It's a much more complex world, and India is just one example. You can say the same thing about Brazil, South Africa, Indonesia, or any situation where there are less likely to be groups of countries that are always with us or against us. From a US perspective, but also from a multinational-company perspective, we're going to have

to navigate a complicated world where some countries are working very closely with the United States and some countries are working with some of its major rivals or even adversaries.

China and the risks of using economic tools

Shubham Singhal: I imagine that is why you've mentioned a need for a systematic approach to the use of economic tools such as export controls and investment restrictions. What are some of the potential risks of this small-yard, high-fence approach to export controls in relation to China?

Michael Froman: International economics has traditionally been organized around the principle of efficiency—companies put supply chains wherever it was most efficient to have them, and consumer welfare ultimately was measured by whether there was success or not. What we've learned over the past couple of decades is that efficiency is important, but so are resilience, redundancy, diversification, and national security, and so now we're looking at our supply chains. Every company's asking: can we afford to be totally dependent on China for manufacturing or on Taiwan for semiconductors, or do we need to have a China-plus-one strategy? Do we need to reshore some of the manufacturing? What do we need to do to make sure we have that resilience and that redundancy? And that's going to require companies to look hard at where their dependencies are.

This should be a key part of risk management. Diversification is the number one rule of risk management more broadly, but we became a little bit complacent over time in terms of being overly dependent on our supply chains. By the way, that means things are going to be more expensive: by definition, if you're not putting efficiency as the only goal but balancing it against national security or other goals, we're going to be paying more for products. It's going to raise the cost for consumers and raise the cost for intermediate users of inputs that they might import from other countries. Those are the trade-offs we're going to see. What I urge is that when people are adopting these economic policies—whether it's on supply chains, export controls, foreign investment restrictions, or industrial policy—that they take a hard look at the trade-offs to make sure that the benefits outweigh the costs.

Shubham Singhal: Are people taking that kind of approach?

Michael Froman: Right now we're looking at issues on kind of an ad hoc basis. We see a particular challenge or a particular threat of overdependency, and we take an action there. To date it's been fairly targeted. So, export controls—the small yard, high fence—has been fairly limited. The question is, will there be inevitable pressure to make the yard bigger? To include more things in the export control regime and to intervene more in the market by the government? Those are questions that have to be answered.

Rethinking supply chains amid protectionism

Shubham Singhal: One of the things US businesses have enjoyed is market access in a lot of places, which is tied to their supply chain presence. How does that change over time, and what does that mean for growth and value creation for companies?

Michael Froman: There's less likely to be the kind of big trade agreements that were focused on opening markets to US exporters. Where it makes sense for companies to invest in the country in order to serve that market, I think that will very much still be the case. For example, companies may invest in China for the China market, but not necessarily for exports from China because we're going to increasingly see protection. Look at electric vehicles—both the US and European markets are beginning to close down to Chinese exports.

I think there could be a new frontier of protectionism as governments look at not just the rules of origin, or what country the product came from—which was the traditional way of looking at trade and supply chains—but the rules of ownership, or which company is producing it and who owns that company. In the United States, for example, we're going to begin a review of the US–Mexico–Canada Agreement, the new NAFTA.^[2] I fully expect the Trump administration to raise the issue of Chinese investment in Mexico and their concern that this is Chinese firms' way of avoiding the kind of tariffs that we've put on China, and they'll begin to look at which companies those exports are coming from and whether to allow them into the market.

Shubham Singhal: Do you feel optimistic about how that will play out?

Michael Froman: There may well be changes or elements that are renegotiated based on the experience of the past few years, but it was an agreement that got broad

bipartisan support in Congress, and obviously it was negotiated by the Trump administration. So I fully expect the Trump administration to re-up the USMCA, but perhaps with some significant changes including the issue of trans-shipment or investment by Chinese firms in Mexico as a way of getting into the US market.

Shubham Singhal: Are there ways companies can capitalize on some of these changes as governments put them in place? Are there positive growth opportunities?

Michael Froman: There are, when it comes to companies looking to reshore or to move their supply chains. I think that creates opportunities for companies to see where investment is going and how to take advantage of that. The challenge will be that companies make these decisions not based on this week's or this month's policy pronouncements but on long-term projections. And where there's a lot of uncertainty about where things may land, it's hard for companies to really plan their strategy accordingly.

The world's emerging economic framework

Shubham Singhal: Is the volatility just because we're shifting from one model of economic order to another? Is there a new framework emerging?

Michael Froman: There's been criticism of the old framework, but a new one has not really been proposed. For example, if there's value in a rules-based system, now we may take issue with the particular rules that we have in place. We may want to revise those rules, but the United States—our workers, our companies, our farmers and ranchers—gets value from the predictability of a rules-based system. Most countries follow most of the rules most of the time. That's sort of the general rule about international law and the international trading system.

When the rules break down it creates a lot of uncertainty, and that's not particularly in our interest. Over time, hopefully, we'll be able to see a new set of rules. It might be for a subset of the global economy, not for all countries. All countries may not sign on to it. You may find coalitions of the willing and coalitions of the ambitious getting together and saying, "We're willing to sign on to this particular high-standard set of rules," and then encouraging other countries to join them over time.

Shubham Singhal: What's the interplay between security considerations and economics? Should we expect that they are intertwined and will continue to be?

Michael Froman: I think they are. For a long time, the view was you needed a strong economy to support national security to make sure you had the financial wherewithal to support a military that could project power around the world, that could support diplomatic efforts and foreign assistance efforts. The economy was seen as an enabler. Now it's a little bit flipped on its head.

The worlds of economic policy and national security policy are converging, and increasingly we're looking to economic tools as tools of national security—for example, export controls to keep the most advanced chips out of the hands of our competitors and adversaries so that we can maintain an advantage and a lead on artificial intelligence. That could have military and intelligence implications as well as foreign investment restraints, by not allowing foreign companies to buy US companies that may have some of the cutting-edge technology, and not allowing US companies to invest in the capabilities abroad and engage in technology transfers. We're likely to see this convergence continue because it goes back to your very first question: the return of geopolitics means that geopolitical rivalry is here, and we have to take it into account. It's going to affect everything we do.

How relevant and useful is this article for you?

☆☆☆☆☆

ABOUT THE AUTHOR(S)

Michael Froman is president of the Council on Foreign Relations and is based in New York City. **Shubham Singhal** is a senior partner in McKinsey's Detroit office.

Comments and opinions expressed by interviewees are their own and do not represent or reflect the opinions, policies, or positions of McKinsey & Company or have its endorsement.

EXPLORE A CAREER WITH US

[Search Openings](#)