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Geopolitical Hedging—The New Mantra of Globalization

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Ricardo Ernst and Jerry Haar

"Hedging your bets" has fast become a mantra not just for investors and traders but entire industries, companies, and nation states.

While the phrase first appeared in a 1672 satirical play by George Villiers, the 2nd Duke of Buckingham, the current climate of volatility, uncertainty, and perplexity have given rise to geopolitical hedging as an indispensable tool of risk management and an essential component of their operational strategies.

Recent surveys and research indicate that businesses are implementing more sophisticated approaches to hedge against unpredictable geopolitical events that can significantly impact their financial performance and operational stability. Quantitative indices such as the Geopolitical Risk Index (GPR) and BlackRock Geopolitical Risk Indicator (BGRI) have gained increasing prominence in recent years.

Increasingly, international companies are developing structured frameworks to systematically address geopolitical risks across their operations. Companies first identify areas of vulnerability, such as their supply chains in the case of a firm like Unilever and Walmart, then assess available options for building resiliency, and finally prioritize responses based on how exposed they are. Doing so helps businesses allocate resources efficiently while addressing the most significant threats first.

Corporations typically employ three geopolitical hedging approaches. The first is *operational repositioning,* relocating supply chains or manufacturing bases to leverage trade agreements and cost advantages. A North American medical-devices firm saved 15-25% in operating costs by shifting production to Mexico while enhancing resilience through nearshoring. Semiconductor companies are increasingly targeting the Taiwan-Singapore corridor, with one firm gaining $47 billion in market share through strategic sales realignment.

The second is *financial hedging.* Currency and interest rate instruments protect profit margins from volatility. Coca-Cola HBC adjusted cash reserves and debt portfolios during the 2022 Russo-

Ukrainian war to mitigate ruble and dollar fluctuations. A global automaker saved $15 million annually through optimized FX hedging strategies while redeploying $1 billion from excess liquidity buffers. Finally, there is *portfolio rebalancing* whereby private equity firms actively shift investments between geopolitical risk zones. One fund relocated dual-use technology manufacturing from conflict-prone regions to stable jurisdictions, avoiding regulatory scrutiny[1]. A dairy conglomerate sold underperforming units and reinvested proceeds in regions with favorable growth trajectories across multiple scenarios, boosting share prices by 10%.

Another approach, followed by European businesses with significant global footprints, known as "4R"[5]. The first "R" is *risk assessment.* Companies are investing in enhanced intelligence gathering and analysis to better understand potential threats. Many organizations have expanded their government relations teams to monitor regulatory changes, potential sanctions, and emerging political developments. With *risk reduction,* businesses actively work to lower their exposure to identified risks or minimize the potential impact on their business model. This involves diversifying supply chains, adjusting market presence, or modifying operational structures.

Another "R" is *ringfencing*. For risks that cannot be eliminated or reduced, companies implement containment strategies to limit potential damage to specific business units or operations. This isolation approach prevents the spread of negative impacts throughout the organization. Finally, there is *rapid response.* Developing agile decision-making processes and contingency plans enables companies to adapt quickly when geopolitical events materialize. This capability has become increasingly important as the pace of geopolitical developments accelerates.

And while geopolitical hedging falls within the domain of individual companies, *entire industries* engage in the practice as well. Take semiconductors. TSMC (Taiwan), Intel (U.S.), and Samsung (South Korea) all pursue hedging strategies through geographic diversification of production. TSMC is building fabs in the U.S., Japan, and Germany to reduce geopolitical risk from cross-strait tensions. This reduces exposure to potential conflict over Taiwan, thereby increasing global resilience. The automotive sector is another case of hedging through nearshoring by U.S. and European automakers to Mexico and Eastern Europe. This strategy involves shifting supply chains from China to politically aligned and stable regions. The result is reduced dependency on East Asia amid rising U.S.-China tensions.

W.H. Auden's 1947 poem *The Age of Anxiety* is an apt title to describe the current global environment, one in which sweeping economic, political, social and legal changes are resulting in unprecedented impacts on companies, consumers and countries. Within this milieu, geopolitical hedging has emerged to allow businesses to successfully navigate complex global power dynamics by balancing relationships, reducing over-dependence, and preserving strategic flexibility.

Ricardo Ernst is *the Baratta Chair in Global Business* and *Professor of Operations and Global Supply Chains at Georgetown University. Jerry Haar is a visiting scholar at Harvard University, professor of international business at Florida International University and a Senior Fellow of the Council on Competitiveness in Washington, DC.*