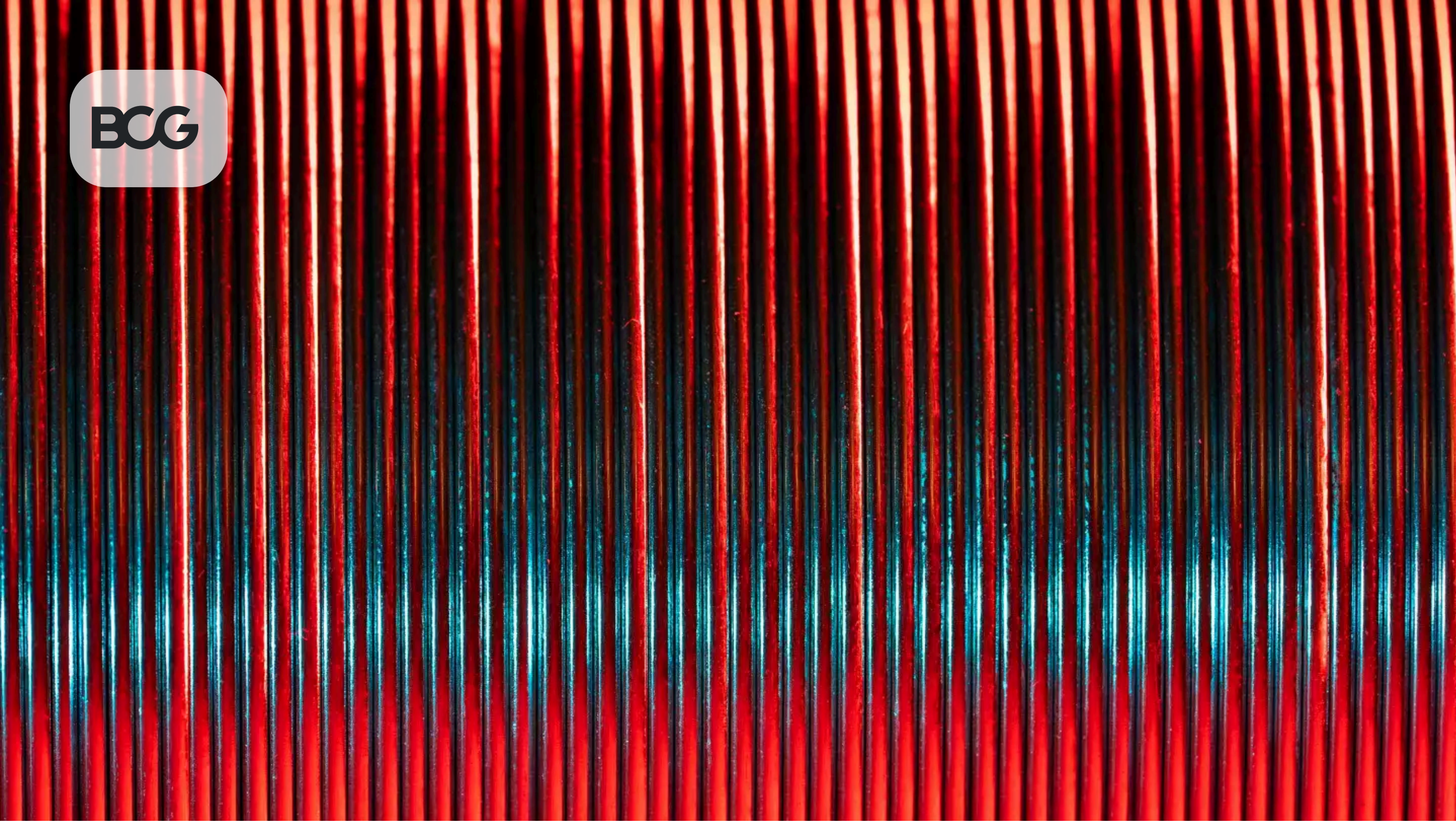

INTERNATIONAL BUSINESS

The Geopolitical Forces Shaping Business in 2026

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ARTICLE DECEMBER 11, 2025 12 MIN READ

In the economy and business, as in politics, uncertainty, complexity, and turmoil are manifesting themselves with accelerating speed. The paradigms and models that CEOs, boards, and policy makers have long relied on are giving way to new multipolarities, alliances, and sources of competition and disruption.

Over the last few years, BCG has periodically examined the forces shaping the world's move toward multipolarity. Many of these forces are coalescing into new patterns and trends that affect global trade, regulatory frameworks, geopolitical alliances, security arrangements, and climate policies. These shifts demand that companies reassess everything from where they manufacture and market to how quickly they can adapt to change and protect or gain competitive advantage.

As we move into a new year, we examine the geopolitical forces shaping the global environment and how they will affect businesses and policy.

Multipolar Geopolitics

The overarching trend is a global shift toward increasing multipolarity as more geopolitical actors vie to shape the global environment for businesses.

The US and China are the leading powers. Their evolving relationship is reverberating throughout the global economy, but Europe and emerging nations of the Global South are also wielding major influence. (See “Leading Powers and Their Priorities.”) Colliding interests translate into rising competition and rivalry but also new collaborations, as each power pursues its own interests and strategies. Longstanding rules and norms are changing, and a fluid patchwork of new rules and power dynamics appears to be emerging.

— Leading Powers and Their Priorities

Major powers are pursuing different interests and strategies that affect relationships with other nations and blocs.

A bolder China, bolstered by its progress in reducing critical dependencies on foreign powers and managing trade negotiations with the US, appears set to continue developing its manufacturing and tech sectors in its next five-year plan. China now accounts for more than a quarter of major industrial R&D spending and half of all patent publications in technology products. It is deepening trade relations with the Global South and is now the biggest trading partner of more than 90 countries. But China is also dealing with domestic economic challenges, such as deflation, a sluggish property sector, consumer uncertainty, and falling growth prospects.

As the US pursues its America First agenda and reshapes itself internally, it is also reshaping the world around it. Deregulation, unconventional government interventions, and immigration restrictions, some aimed at rebuilding American industry, are hallmarks of its approach. In foreign policy, the administration is leveraging forceful economic tools for economic and geopolitical aims. Tariffs, its most preferred lever, have increased more than sixfold over the last 12 months. There has also been a big push to attract foreign direct investment as part of trade deals. The 2026 midterm elections will test public support for these rapid changes.

Europe is constrained from taking quick and bold steps as it confronts geopolitical headwinds, economic sluggishness, and internal division within the EU. At its own pace and reflecting differing views and interests, Europe is adjusting its economic strategy and preparing to play a bigger geopolitical role. It is making trade deals with countries and blocs in the Global South—notably Mercosur, Indonesia, and (prospectively) India—that will open markets further, to about 2 billion customers, while narrowing its defense spending gap with the US by the end of the decade.

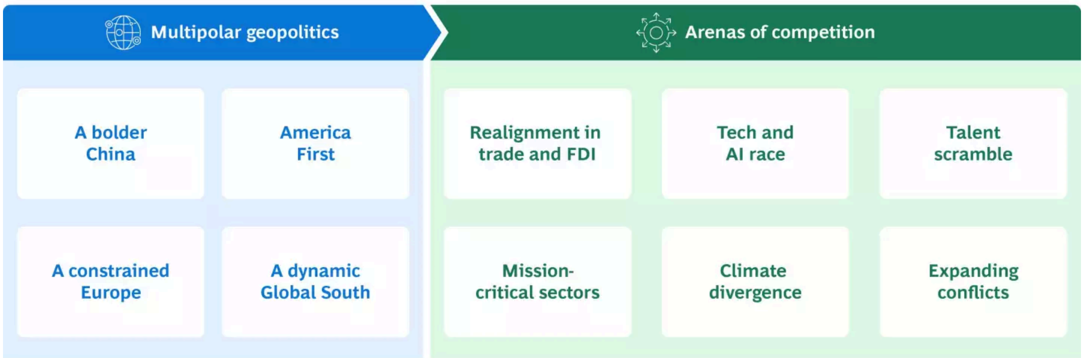
Dynamic powers in the Global South, from India to Brazil to South Africa, are seeking to prioritize growth by taking independent courses from major-power competition, but they are facing more tradeoffs than previously. They will need to navigate and perhaps accommodate pressures while maintaining as much room for maneuver and independence as possible. This could generate some short-term headwinds, but the overall direction is clear. By the end of the decade, the Global South will account for about half of global economic growth.

At the same time, the world's economies remain heavily interconnected through flows in trade, investment, people, and information. This exposes businesses and governments to fracturing dynamics. Governments' increasing focus on national- and economic-security issues is throwing new complications into strategic decision making for business.

Six Arenas of Competition

The multipolar dynamics are creating economic competition in areas that promise a lasting strategic advantage for some and big headaches for others. We see six emerging arenas of competition for business that are centered around global markets and supply chain security, as well as the development of, or access to, industrial, technological, and human capabilities. (See the exhibit.) Since these arenas can be sources of both opportunity and risk, organizations need to navigate them with foresight, strategic adjustments, and preemptive risk management.

Evolving Geopolitics Are Shaping Six Competitive Arenas



Source: BCG analysis.
Note: FDI = foreign direct investment.

Realignment in Trade and Foreign Direct Investment. Global trade remains resilient, but patterns and partnerships are undergoing a major metamorphosis. US tariff hikes and bilateral deals with a variety of trading partners that include other features, such as provisions for direct investment, are creating a patchwork of new agreements, rules, and barriers that are replacing the longstanding, relatively open global marketplace based on WTO norms. These agreements have big ramifications for business, which often are called upon to fulfill the commitments made by governments.

So far, most of the deals involve physical goods, but services, especially digital services, are moving to the frontline of global power struggles as governments toughen regulations on content and the use and storage of data, impose taxes on cross-border digital services, and screen investments. The US, which accounts for 13% of cross-border exports of commercial services, is seeking to open new markets. Companies and countries have little choice but to determine how to adapt.

More than 85% of global trade in merchandise does not involve the US. Partly in reaction to US tariffs, other countries are pursuing new trade deals and forms of partnership, such as EU free-trade agreements and closer integration within Asia. They are seeking to diversify their trade relationships and maintain an open economic order. Geopolitical uncertainty remains high, and a fracturing global trade landscape means that a longer-term scenario of distinct groups of countries trading more among themselves than with each other is a real prospect.

This new landscape forces companies to reassess global supply chains, manufacturing footprints, and direct-investment plans, all of which are influenced by policies beyond trade, such as taxes and immigration. Some companies and countries have struck deals with the US administration that involve tariff relief in return for new direct investment. More such deals appear possible. Management teams need to plan comprehensively for potential trade restrictions, including tariffs and nontariff measures. They should build all the necessary capabilities into their tariff and trade response units. Using scenarios and simulations to anticipate trade and other risks related to geopolitical shifts and regional tensions—for their competitors as well as themselves—is a key element in regulatory preparedness. Companies need to plan not only for their own operations and supply chains but for those of their suppliers as well.

Tech and AI Race. AI capabilities have emerged as a defining attribute of geopolitical competition, with implications for both economic and national security. The US and China are leading the race and have built substantial advantage in their large-scale commercialization. Tech companies from these two GenAI superpowers have created 59% and 26%, respectively, of the top-performing large language models (LLMs). Still, while the US and China are on pace to control the supply of AI technology, a small group of countries in Europe, Asia, and the Middle East—the "GenAI middle powers"—is emerging. Each has distinct strengths that may enable it to compete as a technology supplier on a regional and even a global scale as the race expands to encompass hardware, infrastructure, and technology adoption.

For corporate leaders that are integrating GenAI into their products and services, relying solely on technology supplied by companies in the US or China poses serious challenges. Local regulations, data requirements, and the availability of LLMs are all subject to shifts in government policy. Although a more multipolar supply of GenAI increases complexity, it also gives companies more options.

In addition to end users, the AI race has significant implications for companies in enabling sectors, such as semiconductor design and manufacturing, power generation (to meet exploding demand from data centers), and mining (for rare earth minerals).

Other technology races are being run as well. Quantum computing, where the US and China also compete fiercely, will make its presence known, perhaps as soon as the next decade. This radical technology will have a big impact on cryptography, drug design, finance, and materials science, among other areas. Batteries, renewable energy, biotech, and dual-use technology are additional areas of tech competition.

Talent Scramble. A corollary to the technology race and the competition to rebuild industries is securing access to talent. Technology advances rapidly change corporate skill needs and learning models. Developing or otherwise gaining access to necessary skills is essential to capturing the productivity gains and pursuing the innovation potential of technologies such as AI and quantum computing.

The competition among nations, especially with the intensifying AI race and demographic shifts, is becoming more intense and complex. The US remains the leading destination for top talent, attracting a net 460,000 highly skilled people in the 12 months to August 2025, according to BCG's Top Talent Tracker, followed by the UK, with close to 190,000. Other powers are looking to hold on to their own talent and to attract skilled immigrants. The Gulf states, led by the UAE and Saudi

Arabia, are pushing to improve their attractiveness and have become popular destinations that compete with Europe, Asia, and the English-speaking world. India, long a global provider of people with technical skills, sent more than 250,000 highly skilled people abroad during the above-mentioned period. It is the principal source of internationally mobile STEM and AI talent.

Governments and businesses alike need to prioritize skills development and educational models, not only at the top end, but across a wide range of talent. While education and immigration policy are key strategic considerations for governments, they are also politically sensitive, especially as migration has become a polarizing issue in many countries, notably at election time. For businesses, the talent issue has big implications in multiple areas, including hiring and intracompany transfers. Others include compensation and incentives, training and upskilling of existing staff, and partnerships and ecosystem participation to access external sources of talent and knowledge.

Mission-Critical Sectors. Supply chains used to be about scale, speed, and cost, and those priorities still matter. But the logic of a world in which power is the defining feature means dependencies are used as leverage in geopolitical relationships, increasing the importance of security and resilience. Security now encompasses not only military capabilities but many areas of the economy, which prompts more state intervention. Globally, industrial-policy interventions motivated by considerations of national and economic security, including tariffs, direct-equity stakes, and export controls, have risen more than sixfold since 2021. Governments use such economic statecraft to actively direct, or compel, capital into sectors that they deem mission critical.

The focus of interventions is often on products or supply chain chokepoints, where dependencies gain strategic importance. The evolving relationship between China and the US is illustrative. With a manufacturing sector now double the size of that of the US, China is present in many global supply chains. It also controls about 80% of the mining and 85% of the processing of rare earth elements. At the same, China remains dependent on access to technology components, and US companies design more than 90% of advanced chips and are the leading developers of critical software.

Both powers (as well as others) leverage such critical dependencies for geostrategic advantage and to reduce dependence on others. The range of industries affected has broadened, and groups of countries, often led by the US, are joining formal or informal "clubs" to collaborate on measures such as export controls. They seek to prevent critical products and technologies from crossing geopolitical divides or to jointly reduce critical dependencies.

As more industries take on greater geopolitical importance, individual companies need robust supply chains, sometimes including stockpiles and emergency inventory to protect against cutoffs. Businesses must prepare their supply chains for a variety of scenarios. Many companies are diversifying their manufacturing and sourcing footprints by developing more geographic options. They should consider a "cost of resilience" operating model that delivers both cost competitiveness and agility by building manufacturing and sourcing networks that can be flexible in response to disruption without eroding margin or market share.

Climate Divergence. Climate change remains a concern for many governments, populations, and companies, but the narrative and focus are shifting. Energy security (and cost) is often overtaking decarbonization as the most important factor driving the support for and deployment of renewable-energy technologies. China has become the leader in low-carbon technology products such as electric vehicles, batteries, and solar panels and in renewable-energy investment (at year-end 2024, it had installed 887 gigawatts of solar-power capacity, almost double that of the US and Europe combined). Meanwhile, other countries, including the US, continue to focus their energy strategies on conventional sources. In some markets, such as the US, incentives for climate-favorable products, such as electric vehicles, are drying up, leading to widely varying national or regional market dynamics in industries such as autos.

This divergence in national energy policies, and the deepening political divides regarding climate change, are affecting international coordination. Cooperation is in flux, moving toward smaller, issue-focused clubs. The consequence is a fragmented landscape for rules around carbon markets, taxes, and cross-border levies.

The response of individual companies may depend on where they manufacture and market. In Western Europe, being “green” is still seen as an important corporate attribute. (In some countries, carbon emission targets are the law of the land.) The US may see a split in climate-related policy between more climate-focused states on the one hand and less focused states and the federal government on the other. For China and some countries of the Global South, renewable-energy sources meet commercial as well as energy security objectives. Companies that do not stay attuned to changing climate-related policies may face strategic challenges or compliance risks.

Expanding Conflicts. An especially worrying trend is that armed conflicts are expanding and spilling over into neighboring regions or other parts of the world. With about 60 ongoing interstate and civil wars worldwide (including Ukraine and Sudan), as well as numerous simmering disputes (such as India–Pakistan and Cambodia–Thailand), state-based conflicts are at their highest level since World War II. Disruption to business operations and supply chains are economic effects that add to human suffering.

Some conflicts are making uncertain progress toward potential resolution. But the war in Ukraine goes on, and tensions in the Middle East remain high. Grey-zone operations, for instance by pro-Russian actors in Europe, continue to affect critical infrastructure and security-related installations. Conflicts are also fought in new domains, such as space and undersea. Digital domains have become targets, with cyberattacks affecting a wide range of businesses and organizations, notably IT firms, research institutions, and government agencies. AI opens new vulnerabilities.

Given underlying social tensions in many countries, protests, unrest, and violence can erupt quickly and affect business operations. There is growing pressure on local managers, especially in less stable regions, to develop sensitive political and social antennae and to have plans in place for disruptions should they occur. Companies also need to manage the anxieties of their employees, as well as actual threats to them.

In turmoil can lie opportunity. As Europe boosts its defense spending in the coming years, a cumulative market for nondefense contractors is expected to reach as much as €500 billion from 2026 through 2029, including €220 billion in new demand for software, aerospace, automotive, electronics, telecom, and logistics companies that are outside existing defense value chains.

What This Means for Leaders

Multipolarity, national policy, and state intervention are now facts of business life. Companies must position themselves for disruption and advantage in a world of uncertainty and flux. This means:

- Building geopolitical muscle: the capability to factor geopolitics into strategic and capital allocation decisions and adjust global operating models to a multipolar world
- Keeping costs under tight control through technologies such as AI, investing in supply chain resilience in the event of geopolitical disruption, and, where possible, seizing opportunities from competition in strategic sectors
- Enhancing navigation of cross-border barriers and identifying growth opportunities in new partnerships, trade deals, and regions
- Adjusting organizational structures to geopolitical realities to allow for the seizing of growth opportunities across a wide range of jurisdictions
- Upgrading technology systems (and the related talent) to ensure continuity in the event of geopolitical tensions or the intervention of malign actors

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There was a brief period at the end of the last century when many thought the end of the Cold War would bring about a “peace dividend.” That hope was short-lived. Uncertainty, complexity, and turmoil appear likely to be with us for some time to come.

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