Political Risk
Outlook

November 2024

About Verisk Maplecroft

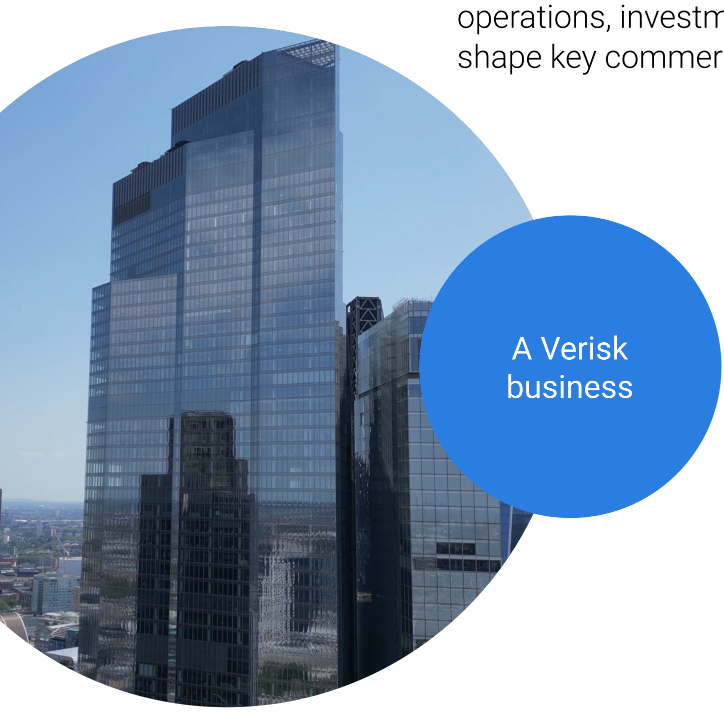
Verisk Maplecroft is a global risk intelligence company, providing unparalleled insight into sustainability, resilience and ESG issues, underpinned by best-in-class geospatial data and analytics.

As organisations strive to understand and adapt to a fast-moving world, we empower them to put the environment, human rights and political risk at the heart of their decision-making. We do this by providing unparalleled intelligence on sustainability, resilience and ESG – stitching together these disparate issues into an interconnected global view, built upon objective insight and data.

Political Risk Outlook

The Political Risk Outlook draws on Verisk Maplecroft's unique portfolio of country risk data, alongside analysis from its team of experts, to strip back the complexity of some of the key global issues driving the risk environment for international business.

The research is designed to help companies and investors understand where and how geopolitical and political risks are emerging and what these mean for them. Ultimately, the report shows how risk data can be used in tandem with expert analysis to reveal tangible risks to global operations, investments and supply chains that can inform strategies and shape key commercial decisions.



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Faultlines: The political risk ‘signals’ to watch in 2025

Geopolitics takes centre stage

Global Risk Insight Team

Our Political Risk Index identifies 99 countries that have witnessed a significant rise in risk

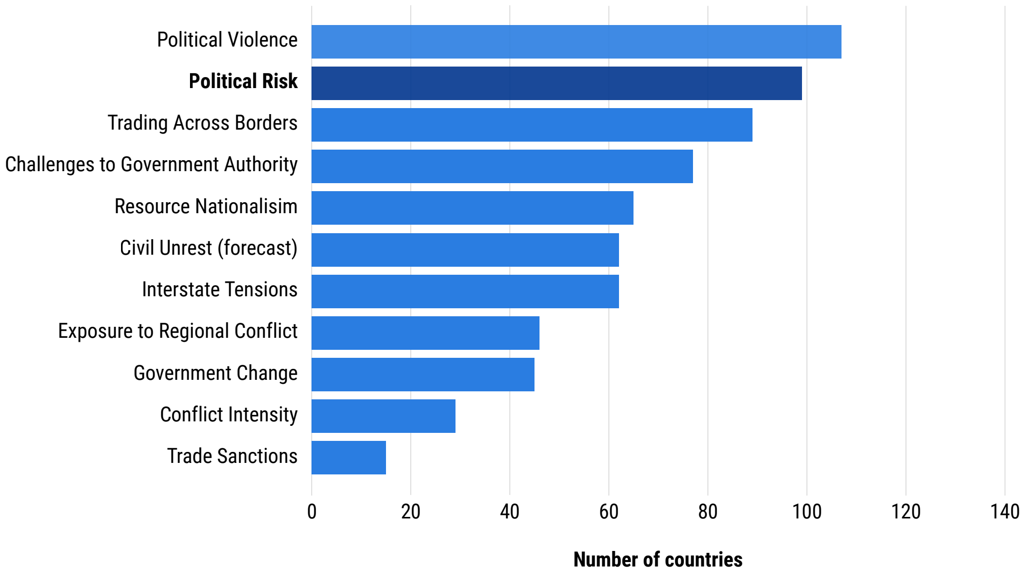
The world has become less predictable. Traditional alliances and geopolitical battlegrounds are evolving as a wave of strategic competition drives uncertainty for global business. From geopolitics and conflict to elections and trade, our data shows that the international system is heating up and creating a new risk baseline for multinational organisations across the world.

The current dynamics demand innovative approaches to understanding where risks lie and how they might develop in the future. In the latest edition of our Political Risk Outlook, we draw on our unique portfolio of country risk data, alongside analysis from our team of experts, to strip back the complexity of some of the key global issues driving the risk environment for international business.

Shifts over the past three years in the 64 risk indices that make up our Political Risk Data provide important signals that companies and investors need to pay close attention to as we enter 2025. Our Political Risk Index identifies 99 countries that have witnessed a significant rise in risk. Digging deeper, we also see similar trends emerge across a range of other factors. As the chart below shows, these include issues as wide-ranging as civil unrest, conflict, challenges to government authority, ease of trade, interstate tensions, resource nationalism and sanctions.

Figure 1: Risks have increased in a significant number of countries on several of our key political risk indices

Number of countries that have recorded a significant increase in risk since 2021-Q1



Source: Verisk Maplecroft

“Nearly half of the countries holding elections this year experienced procedural irregularities

These shifts have defined the topics we examine in this year’s Political Risk Outlook. The common theme is that geopolitics is, and will continue to be, the defining feature shaping the global risk landscape for business. Within the report, we delve into some of these issues in greater detail, including: conflict, the exposure of markets and key industries to heightened geopolitical tensions, and the impact of strategic global competition on protectionism, trade, resource nationalism and the cost of doing business.

But before we do that, we’ve used our Political Risk Data to take stock of the current state of play, where we might be headed and what some of these risks mean for global business.

Democracy and unrest

Donald Trump’s sweeping victory in the US presidential election marked the near-end point of the 2024 ‘election supercycle’, in which 77 countries representing half the global population went to the polls. The robustness of the US electoral system stood up to the test on 5 November, but an indicator of our Democratic Governance Index that assesses voting processes shows that nearly half of the countries holding elections this year experienced procedural irregularities in their most recent polls. The use of violence and intimidation was also observable in a fifth of the countries we assessed.

With a multitude of new governments taking office in 2024 and into 2025, a key question for businesses will be whether new and incumbent governments can maintain a stable operating environment. This risk will be particularly relevant in countries such as the US, Mexico and Sri Lanka, where new administrations come into office with high expectations and short honeymoons. This could pave the way for both growing divisions and mounting frustration among the electorate – which could potentially spill over onto the streets.

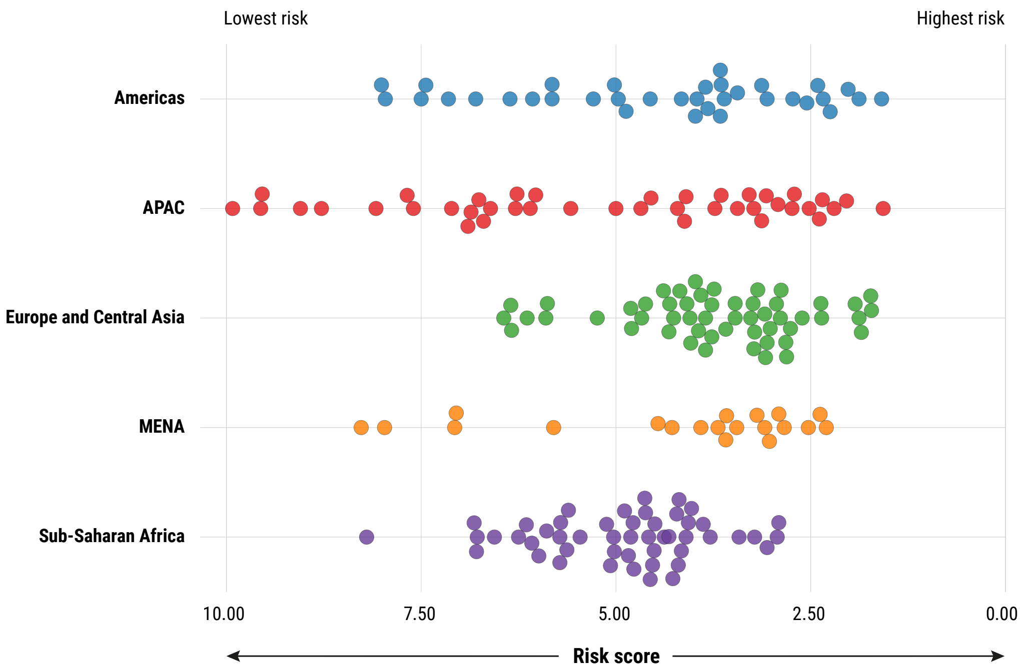
A growing risk of widespread protests will affect twice as many countries as those where unrest will recede in 2025, according to data from our predictive Civil Unrest Index. During 2024, all regions witnessed major civil unrest events, from Kenya to Bangladesh and New Caledonia to the UK, to name but a few. This reinforces a clear long-term trend over the last five years of more frequent civil unrest events.

Although the number of major elections will fall sharply in the year ahead, 2024 has been a reminder that these aren’t necessarily strong predictors of disruptive civil unrest. Less than 10% of major elections during the first 10 months of 2024 sparked major unrest.

“Companies seeking to diversify into connector markets, such as Mexico and Vietnam, and other emerging economies will face a different and less familiar set of political risks

Figure 2: Civil unrest risks run high in most regions

Civil Unrest (forecast) Index, country risk scores 2024-Q4



Risk scores are allocated on a scale running from 10 to 0, with 0 indicating highest risk.

Source: Verisk Maplecroft *© Verisk Maplecroft 2024*

Trade as a battleground

The role of international trade as a geopolitical battleground will likely intensify in the next four years after Trump takes the helm as US president. Based on his rhetoric during the campaign, we expect his administration to impose tariffs at levels not seen since the 1930s.

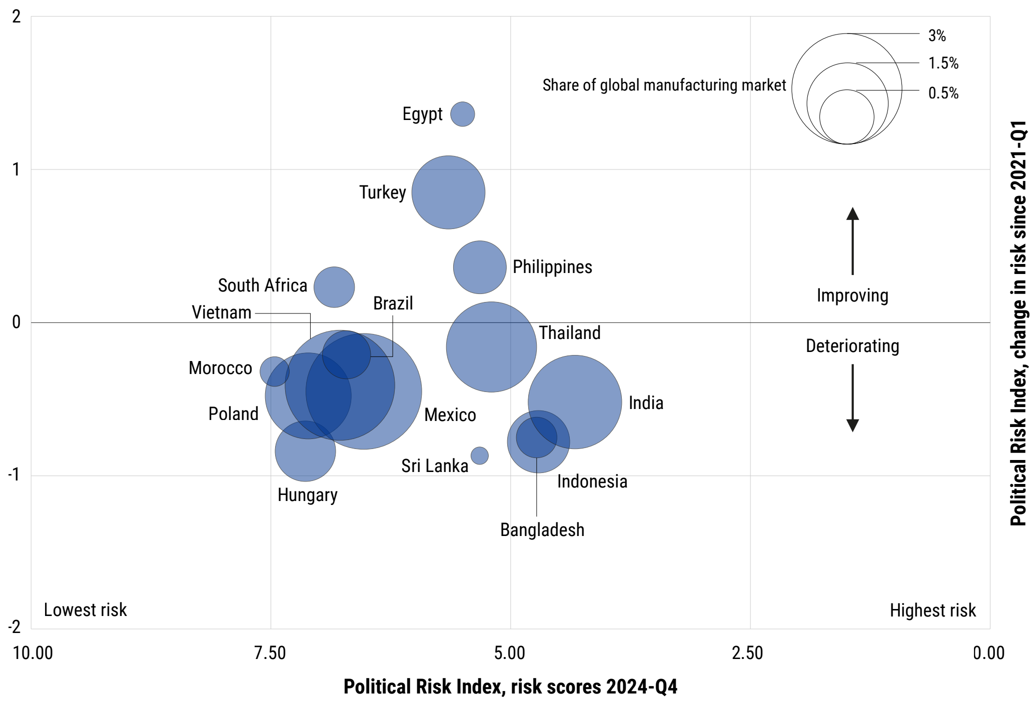
While the outcome is far from certain, if imposed, import tariffs of up to 20% on all countries – and a higher rate of 60% for China – could upend international trade, place further pressure on splintering globalisation and drive inflation in the US. Countries without free trade agreements would be particularly affected. The most exposed in terms of US import values are China, Germany, Japan, Vietnam, Taiwan, Ireland, India, Italy, the UK and Thailand.

Businesses will look to insulate operations and supply chains from geopolitical tensions. However, companies seeking to diversify into connector markets, such as Mexico and Vietnam, and other emerging economies will face a different and less familiar set of political risks in these new countries of operation. As Figure 3 shows, political risk within a number of these important markets is on the rise.

46 countries have experienced a significant increase in risk on our Exposure to Regional Conflict Index

Figure 3: Emerging markets no quick fix for diversification

Political Risk Index, showing current scores for 15 emerging markets and change since 2021-Q1



Source: Verisk Maplecroft, The World Bank *© Verisk Maplecroft 2024*

No end in sight for key conflicts

What is sure is that interstate tensions and conflict will set the stage for a more challenging business environment across both emerging and developed economies.

Corporates and investors must be ready for increased risk across multiple domains. Our data shows that since 2021, 46 countries have experienced a significant increase in risk on our Exposure to Regional Conflict Index, while 27 witnessed a similar rise on our Conflict Intensity Index. Supply chains and operations across the Middle East, sub-Saharan Africa, South America, and South-East Asia are exposed to major disruption risks as a result.

A key risk dynamic we will be tracking closely in 2025 is the trajectory of the conflicts in the Middle East and Ukraine. The outlook for conflict in the Middle East is negative, as underscored by the fact that six of the highest 12 risk pairings on our Interstate Tensions Model involve at least one country from the region. Although unlikely for now, there is a risk that tit-for-tat attacks between Iran and Israel escalate into a broader regional war that drags in the Gulf States and the United States more directly.

Trump's return to the White House points to a major shift in US policy towards the war in Ukraine. His pledge to 'solve' the conflict could result in President Zelensky being pressured into accepting a ceasefire or losing US military and financial support. Such a scenario would reduce the intensity of conflict in Ukraine and Russia substantially. But a ceasefire that is forced upon Kyiv risks creating a frozen conflict that is susceptible to regular flare-ups. In addition, this would do nothing to deter authoritarian leaders from deploying military force elsewhere in pursuit of political aims that could trigger new waves of security, sanctions, cyber, supply chain and reputational risks for multinational businesses.

Geopolitics major theme to watch in year ahead

With 73 countries experiencing a significant rise in risk on our Interstate Tensions Model over the past five years, the tone is set for greater instability and challenges in doing business globally.

As we try and understand how the global risk environment will develop in the months and years ahead, it is the key themes of geopolitics, trade and conflict we will explore in greater depth throughout this year's Political Risk Outlook.

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Conflict zones grow by two thirds globally since 2021, covering 6 million km^2

Ukraine, Middle East key flashpoints, but biggest expansion of conflict in Africa


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“In terms of area affected by conflict, Africa has seen a greater expansion than any other region

Conflict-affected areas across the world have grown 65% since 2021 to encompass 4.6% of the entire global landmass, up from 2.8% three years ago. That is equivalent to 6.15 million km^2, nearly double the size of India, that is now afflicted by fighting between or within states, according to our Conflict Intensity Index (CII).

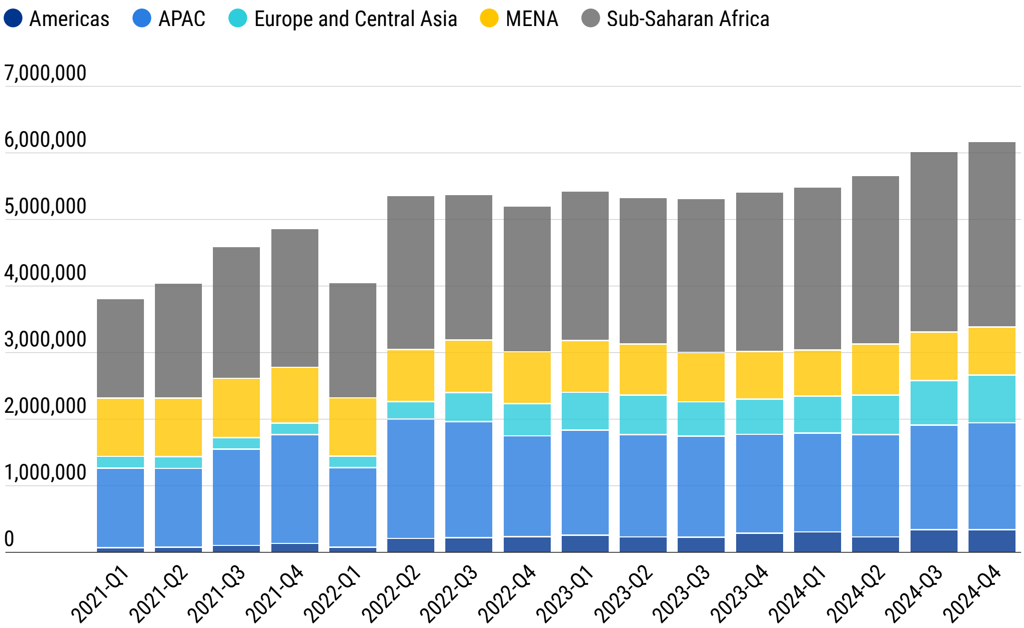
From the widespread human cost and increased migration to the widening of geopolitical fault lines, the damaging economic impacts and threats to international trade and supply chains, the consequences of the upsurge in conflict are globally significant. The spread of violence is mirrored by rising casualty rates, with conflict deaths on course to breach 200,000 by the end of the year, up 29% on 2021.

The Middle East and Ukraine remain the most intense theatres of war, and both have the capacity to escalate. The spread of conflict in these geographies is well documented, in part because of their geopolitical significance. However, the Conflict Intensity Index, which measures the severity of armed conflict at subnational levels across 198 countries, also provides valuable insights into countries and regions that are less well reported on.

In total, 27 countries, including the emerging markets of Ecuador, Colombia, India, Indonesia and Thailand, have experienced a significant increase in risk since 2021. However, in terms of areas affected by conflict, sub-Saharan Africa has seen a greater expansion than any other region.

Figure 1: Territory impacted by conflict has increased by 65% since 2021-Q1

Territory impacted by conflict (km^2) per region, 2021-2024



Global analysis excludes Antarctica.
Conflict-affected areas encompass territory proximate to and where fighting is ongoing.

Source: Verisk Maplecroft, ACLED

> **“Several other lesser-known conflicts are also contributing to this upswing**

Africa’s ‘conflict corridor’ doubles in size

Africa’s ‘conflict corridor,’ which now spans 4,000 miles from Mali in the west to Somalia in the east, has doubled in size since 2021. As a result, areas affected by conflict in 14 countries across the Sahel and East Africa now equate to around 10% of sub-Saharan Africa’s overall land mass or 2.5 million km^2, more than 10 times the size of the UK.

The escalation is most pronounced in Burkina Faso, where 86% of the country is now embroiled in conflict between state forces and militants. Over the same period, conflict areas in the civil wars in Sudan and Ethiopia have expanded by more than 20% and 30% respectively, while armed violence in Nigeria now affects 44% of its territory.

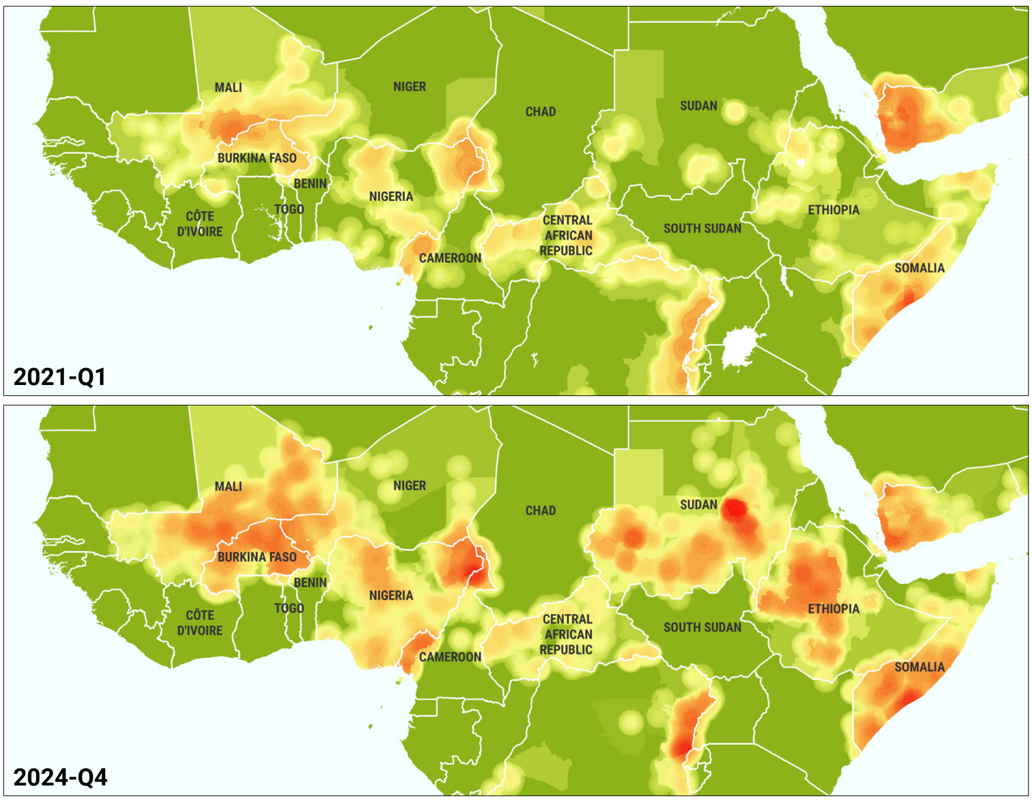
The geographical spread of conflict is not the only issue though. According to the CII, conflict fatalities across the conflict corridor this year are also on course to increase by over 50% compared to 2021.

Beyond Africa, several other lesser-known conflicts are also contributing to this upswing. The civil war in Myanmar, which has been raging since the 2021 coup d’état, has seen the South-East Asian state fall from the 19th to the 2nd worst performing country in the latest edition of the CII. Haiti and Ecuador have similarly chalked up statistically ‘exceptional’ deteriorations on the index amid surging gang violence, which has escalated from criminality to the declaration of internal conflicts.

Figure 2: Africa’s ‘conflict corridor’ has doubled in size since the start of 2021

Performance of selected African states on our Conflict Intensity Index

Lowest intensity **Highest intensity**



Source: Verisk Maplecroft, ACLED

> **Rapidly increasing tensions between Iran and Israel point to the potential for conflict in the Middle East to escalate even further**

Conflicts in Middle East and Ukraine are volatile swing factors

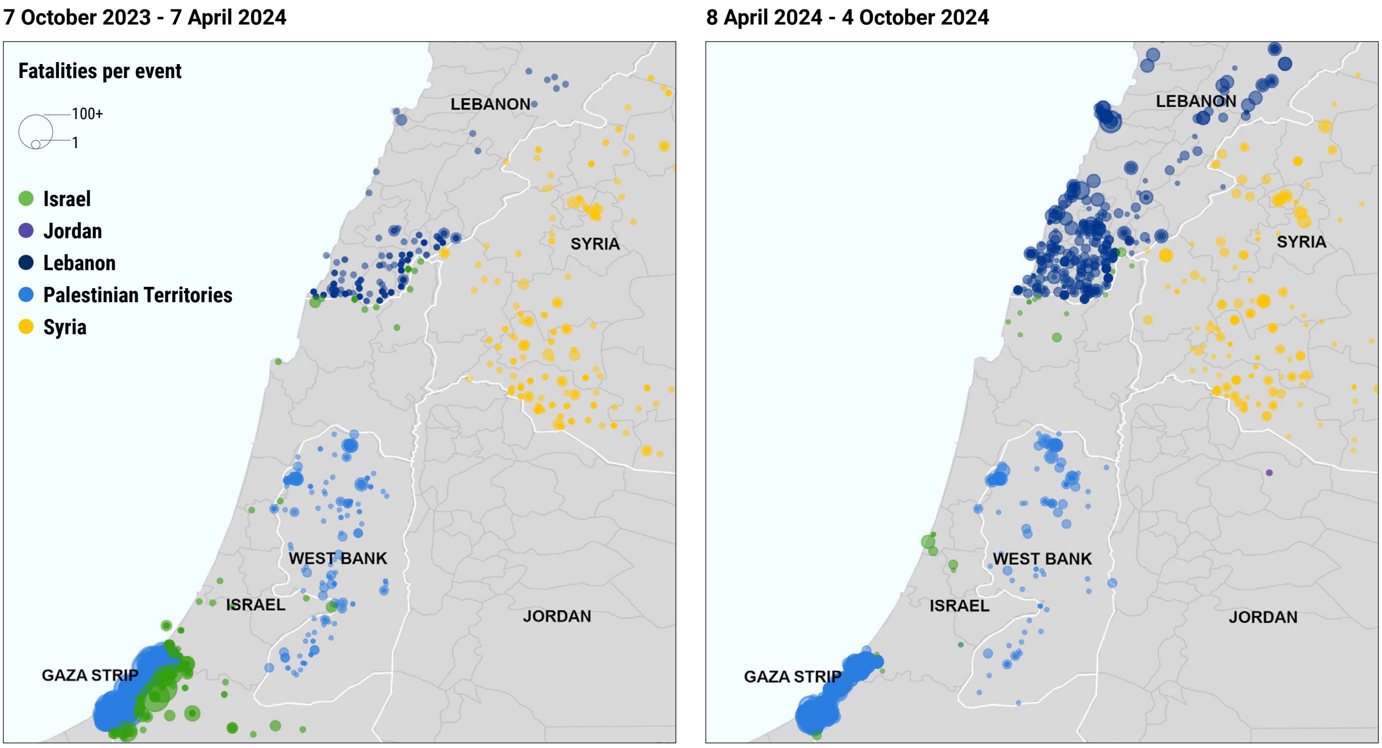
The Middle East is unsurprisingly one of the key drivers in the upward global conflict trend. Israel, the Palestinian Territories, Lebanon, Syria, and Yemen are all now ranked among the 10 highest risk jurisdictions globally on the CII.

Following the 7 October 2023 terrorist attack on Israel by Hamas, and the subsequent retaliation by the Netanyahu government against Iran's so-called 'Axis of Resistance', the region remains on a knife-edge. Rapidly increasing tensions between Iran and Israel point to the potential for conflict in the Middle East to escalate even further. Israel's focus to-date has been on degrading Iranian proxy groups in Gaza, Lebanon, Syria and Yemen. But the volatile situation could yet deteriorate to the point where Iran itself and even Gulf states become new centres of conflict in the months ahead.

Russia's full-scale invasion of Ukraine similarly represents another important driver of the global uptick in conflict, with the proportion of Ukrainian territory affected by the fighting rising from under 8.6% to 70.5% since February 2022. Perhaps more surprisingly, the amount of Russian territory affected by conflict has increased more than 10-fold over the same period – albeit from a very low base – amid cross-border shelling, Ukrainian drone and missile attacks, covert raids and Kyiv's Kursk offensive. Donald Trump's re-election to the US presidency increases the prospect of a ceasefire in Ukraine, but any peace will likely be fragile and reversible.

Figure 3: Violence has spread throughout the Middle East since October 7

Conflict incidents and fatalities in Israel, Palestinian Territories, Lebanon and Syria, October 2023-October 2024



Source: Verisk Maplecroft, ACLED

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Intensifying global conflict has a myriad of consequences

The human toll of conflict is alarming. Global conflict fatalities could breach 200,000 by the end of the year, up nearly a third since 2021, according to our assessment of Armed Conflict Location and Events Data (ACLED). The UN also estimated that the number of people displaced by conflict, violence or persecution exceeded over 120 million by the end of April 2024.

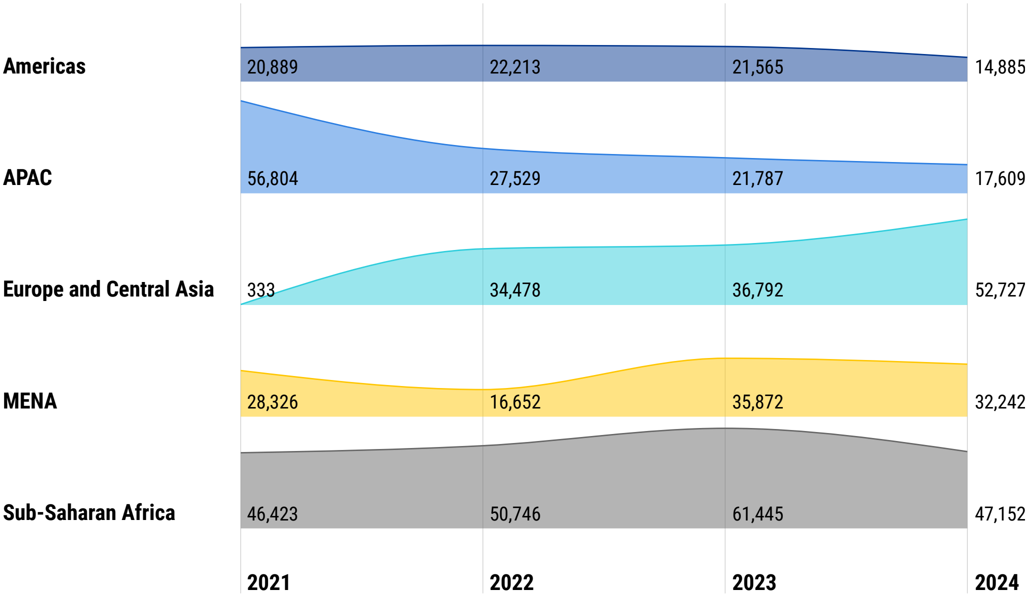
From an economic perspective, the cost of conflict can also be devastating. The latest UN estimate is that the war in Ukraine has caused USD152 billion in direct damage and the cost of reconstruction and recovery will reach nearly USD500 billion. The cost of rebuilding Gaza is estimated at over USD80 billion.

In addition, the direct and indirect threats to businesses need to be closely monitored. Data from our Asset Risk Exposure Analytics (AREA) – which measures the exposure of over 4 million assets of publicly listed companies to political, human rights, climate and environmental risks – shows that corporate exposure to conflict is currently limited. Only 3.68% of the assets of the highest risk sector, oil & gas, are exposed to conflict, but this could change rapidly if conflict in the Middle East escalates.

Global supply chains, on the other hand, are more exposed to war-related impacts. Most notably, the disruption to Red Sea maritime trade caused by the Iranian-backed Houthi rebels in Yemen attacking Western shipping shows no sign of ending and has led to increased shipping and insurance costs. The fallout from Russia's invasion of Ukraine likewise roiled global supply chains, from energy to fertiliser through to agri-commodities.

Figure 4: Global conflict fatalities could breach 200,000 by the end of 2024

Fatalities from conflict events by region, 2021-2024



2024 data as of 4 October.

Source: Verisk Maplecroft, ACLED

Where might the next bout of armed conflict break out?

The rise in global conflict puts geopolitical tensions firmly in the global spotlight. Outside of the Middle East, the Indo-Pacific is one region to watch due to its multiple potential geopolitical flashpoints. Our Interstate Tensions Model, which assesses the risk of bilateral tensions spilling over into a confrontation that entails the threat, display, or use of force, identifies China-Taiwan, North Korea-South Korea and China-Philippines as very high risk pairings.

There is little sign that the recent upsurge in armed conflict – and all the tragedy and challenges that go with it – will dissipate in 2025. Indeed, the situation may get worse before it gets better.

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Cost of doing business at 10-year high as geopolitics takes toll on global trade

Hidden costs of deglobalisation hit Western democracies hardest

Reema Bhattacharya
Head of Asia Research

Laura Schwartz
Senior Asia Analyst

> **Companies are bearing the brunt of rising tax burdens alongside increasing operational costs**

As ‘deglobalisation’ and ‘friend-shoring’ gain momentum, a concurrent rise in global trade restrictions and escalating diplomatic tensions, particularly between the US and China, have raised the cost of doing business globally to a 10-year peak. Our research shows that nowhere is more affected than Western democracies and their allies, where companies are bearing the brunt of rising tax burdens alongside increasing operational costs that have, in part, been exacerbated by their own countries’ protectionist policies.

Current debates on the potential effects of deglobalisation often focus on macro-level issues such as global trade volumes, interconnected supply chains and cross-border capital flows. However, the rising tide of tit-for-tat trade measures between geopolitically diverse blocs is having an immediate impact on businesses at the local level, straining operations and competitiveness in domestic markets.

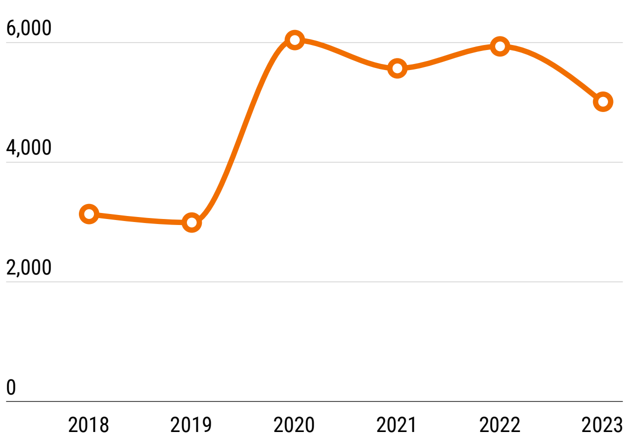
Our data reveals that harmful policy interventions linked to deglobalisation have adversely affected business costs across major economies, including Germany, the UK, Japan, South Korea and the US, despite some governments’ efforts to improve their domestic policy environments to ease the burden. Although the exact costs are difficult to quantify due to overlapping factors like the COVID-19 pandemic, some estimates suggest the trade war’s cumulative impact on the global economy from 2018 to 2023 is between USD1.5 trillion and USD2 trillion.

The re-election of Donald Trump signals that trade protectionism will continue apace, which could have a boomerang effect. Successfully derisking supply chains from geopolitical competitors will, in all likelihood, continue to increase the cost of doing business in Western democracies. This means that consumers and companies are going to foot the bill for a substantial realignment of the global production and flow of goods and resources between countries.

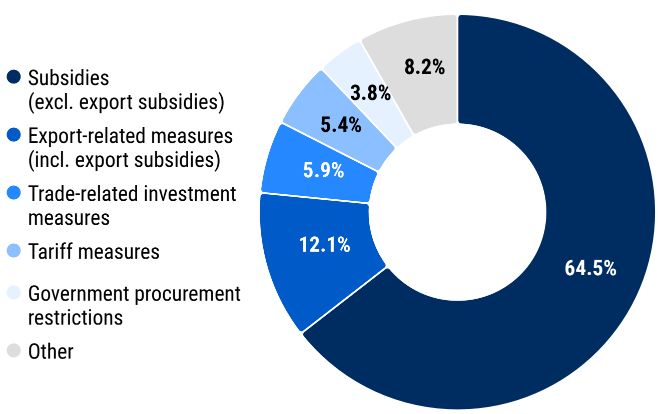
Figure 1: Harmful interventions have surged globally since 2018

Number of harmful interventions and policy instruments used since 2018

Harmful interventions (global)



Types of harmful policy instruments used since 2018 (global)



Source: Global Trade Alert

Businesses battle diminishing returns amid splintering economies

Our data indicates that global business costs have been steadily increasing over the past decade. However, the last six years of trade conflicts — initially sparked by the escalation of the US-China trade war during the Trump presidency — are most responsible for upending a previously stable period of international trade and intensifying long-term challenges for global businesses.

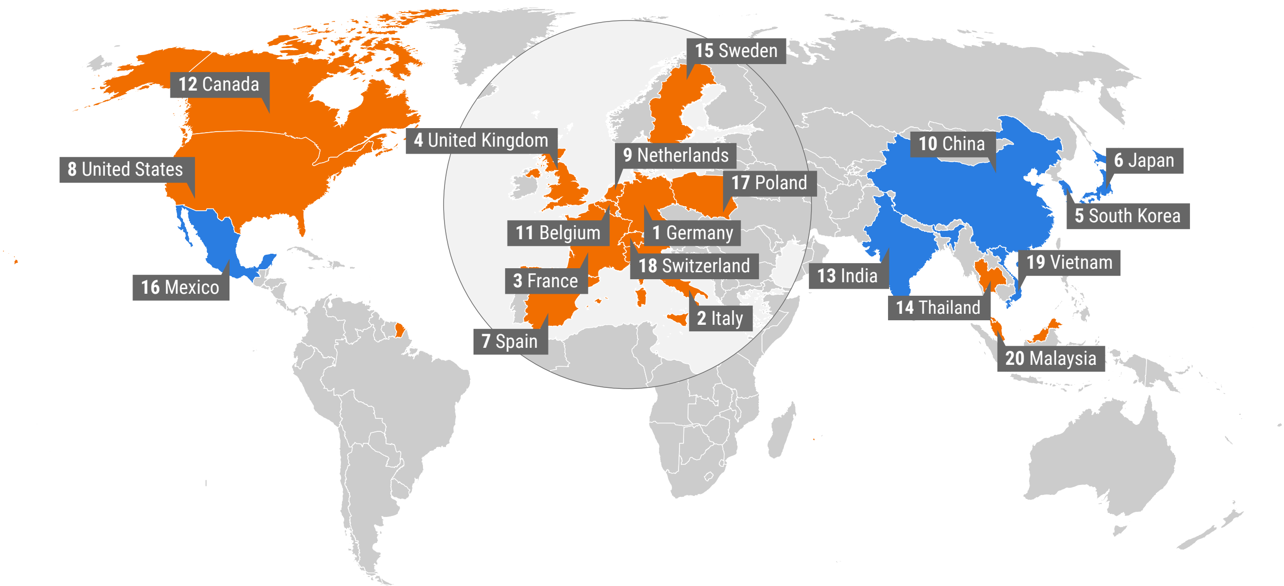
Since 2018, 14 of the 20 countries most impacted by protectionist trade policies have seen significant declines in their business environments, including major economies that represent about 45% of global GDP. These trade measures — such as export controls, national security-based investment screenings, protectionist subsidies, and higher import tariffs — have occasionally reduced regulatory burdens for domestic firms. However, as our data shows, they have largely fallen short of improving the broader domestic business climate amid growing macroeconomic pressures and global competition.

Figure 2: 14 of the 20 countries most impacted by harmful interventions have seen declines in their business environments

Business environment risk trends for 20 economies most impacted by harmful trade interventions, 2018-2024

Overall risk trend in business environment ● Deteriorating ● Improving

Country rank # denotes the countries most affected by harmful trade interventions since 2018 (1 = most affected).



Change in risk on selected business environment areas

● Significant increase ● Slight increase ● Significant decrease ● Slight decrease ● No change

Rank	Country	Trading across borders	Business costs	Borrowing costs	Regulatory burden	Economic growth
1	Germany	Slight decrease	Slight increase	Significant increase	Significant decrease	Significant increase
2	Italy	Significant increase	Significant increase	Slight increase	Significant decrease	Significant increase
3	France	Slight increase	Significant increase	Significant increase	Significant decrease	Significant increase
4	United Kingdom	Significant increase	Significant increase	Significant increase	Slight increase	Significant increase
5	South Korea	Slight increase	Significant increase	Significant decrease	Significant decrease	Significant decrease
6	Japan	Slight increase	Significant increase	Slight decrease	Significant decrease	Significant decrease
7	Spain	Significant increase	Significant increase	Significant increase	Significant decrease	Significant increase
8	United States	Slight decrease	Significant increase	Significant decrease	Slight increase	Significant increase
9	Netherlands	Slight decrease	Significant increase	Significant increase	Significant decrease	Significant increase
10	China	Significant increase	Slight decrease	Significant decrease	Significant decrease	Significant increase
11	Belgium	Significant increase	Slight decrease	Significant increase	Significant decrease	Significant increase
12	Canada	Significant increase	Significant increase	Significant decrease	Slight increase	Significant increase
13	India	Significant decrease	Slight increase	Significant decrease	Significant decrease	Significant decrease
14	Thailand	Significant increase	Significant increase	Significant increase	Significant increase	Significant decrease
15	Sweden	Significant increase	Significant increase	Significant increase	Slight increase	Significant increase
16	Mexico	Significant increase	Significant increase	Significant decrease	Slight decrease	Significant decrease
17	Poland	Slight decrease	Significant increase	Slight decrease	Significant decrease	Significant increase
18	Switzerland	Slight decrease	Significant increase	Significant increase	Significant decrease	Significant increase
19	Vietnam	Significant increase	Significant increase	Significant decrease	Slight decrease	Significant decrease
20	Malaysia	Slight increase	Slight increase	Significant increase	Slight increase	Significant decrease

Source: Verisk Maplecroft, Global Trade Alert

“Much of the cost escalation is linked to trade measures targeting vital industrial sectors

Business costs, including labour and taxes, have risen across nearly all affected nations, with the US, UK, and South Korea seeing the steepest increases. In Germany and France, adverse trade interventions have also led to significantly higher borrowing costs. Much of the cost escalation is linked to trade measures targeting vital industrial sectors — such as steel, agriculture, auto parts, and pharmaceuticals — which form the backbone of the global economy. In contrast, China has demonstrated greater resilience despite domestic challenges and being a major target of trade sanctions.

In a second Trump administration, the proposed revocation of China’s permanent normal trade relations (PNTR) status, coupled with a substantial increase in protectionist measures, could markedly intensify the ongoing deglobalisation process. With proposals for 60% tariffs on goods from China and 10-20% on imports from the rest of the world, Washington’s approach would likely spark reciprocal actions that together could cause significant upheaval in global supply chains and trade flows.

As economies continue to realign along geopolitical lines, the pressures of tariffs, reduced trade, investment uncertainty, and shifting supply chains will likely hike up long-term costs.

Intensifying trade war offers up new winners and losers

New dynamics are, however, unfolding as businesses seek ways to navigate escalating trade barriers. As US-China tensions intensify and bilateral trade declines, both countries are increasingly shifting their focus toward key ‘connector’ economies.

Mexico and Vietnam, in particular, have reaped significant benefits from their strong ties with both the US and China. Since 2018, they have increased their share of US imports while capturing a larger portion of Chinese exports and foreign direct investment (FDI), signalling a redirection of global trade flows. This shift is supported by their robust performance on our data measuring the business environment.

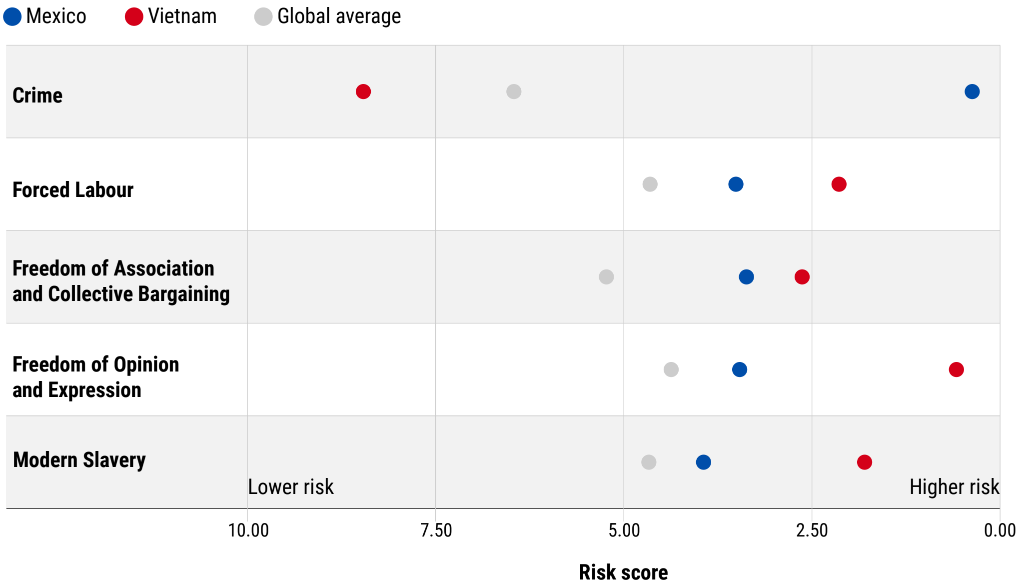
However, rising political sensitivity surrounding these investments will force both countries to navigate a delicate balancing act. Given Vietnam’s substantial trade surplus with the US, it could face additional restrictions under the incoming Trump administration. A pivotal moment for Mexico will be the mandated review of the USMCA trilateral free trade agreement in July 2026. During this review, we anticipate the next US administration to seek measures aimed at curbing the ability of Chinese companies to complete products in Mexico to circumvent US tariffs and import restrictions.

> **Rising operational and supply chain costs stemming from growing protectionism could erode corporate margins and competitiveness**

Both countries also present unique challenges that pose increasing operational and security risks for global businesses expanding into these markets. Mexico's major economic centres consistently fall into the highest risk category of our Crime Index, primarily due to organised crime and elevated violence levels. Vietnam is among the highest risk countries worldwide for several critical labour rights concerns. Our data indicates that risks related to modern slavery, forced labour, and trafficking have significantly worsened over the past five years, while civil and political rights have stalled. This negative trend highlights that greater economic engagement with Western partners has not resulted in better worker protections or overall human rights improvements in Vietnam.

Figure 3: Crime, human rights among challenges complicating supply chain diversification

Selected risk indices, scores for Mexico and Vietnam against global average



Risk scores are allocated on a scale running from 10 to 0, with 0 indicating highest risk.

Source: Verisk Maplecroft

The rise of 'connector' economies may soften the economic fallout from the trade war to some degree. However, a shift towards increasing trade within blocs and reducing trade between competitive markets is likely to undermine global trade efficiency further and drive up costs. This is particularly consequential for small and medium-sized enterprises (SMEs) that rely on international exports. Expanding costs could severely impact their financial stability and heighten default risks in the coming years. Multinational supply chains reliant on SMEs could face disruption as a result.

Geopolitical realignment changing the operating landscape

As global economies increasingly align into three blocs — one led by the US, one by China, and a third that includes nonaligned nations — rising operational and supply chain costs stemming from growing protectionism could erode corporate margins and competitiveness, especially for companies headquartered outside the US.

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To navigate the turbulent years ahead, companies must look beyond traditional priorities, such as production costs, efficiency, and innovation, and integrate geopolitical risk considerations across all segments of their value chain. This shift requires a more rigorous examination of the origins of raw materials, the countries where goods are manufactured and the locations of services and logistics hubs. The broader implications for national and regional security of investments in new and existing sectors are now firmly in the sights of policy makers. Business will have to follow suit.

Geopolitical risk exposure of major stock markets hits new peak

Widening interstate tensions undermine resilience of leading market indices


Franca Wolf
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James Lockhart Smith
VP Markets

> **"The lesson for investors and companies looking to manage their exposure to geopolitical risk is clear: the threats are systemic in nature and getting worse**

Following Ukraine, the Middle East is the latest geopolitical hotspot flashing red on investors' radar. The risks of an oil price shock and further supply chain disruptions are real, but companies that make up five of the world's major stock markets have remained mostly insulated from the direct impacts of the conflict due to their low concentration of operations in the region. Instead, our research shows that rising tensions across several other geopolitical faultlines should be at the forefront of investors' minds, as these have similar if not greater potential to create market shocks due to the high levels of exposure of Western stocks and strategic industries.

Using our Interstate Tensions Model to map geopolitical risk against the global footprints of 1000s of public companies, we've found that Europe's largest stock market indices, the FTSE 100 (UK), CAC 40 (France) and DAX (Germany), have greater overall geographic exposure to these risks than their US and Japanese counterparts. Between half and three quarters of the assets in these European stock markets are located abroad, and around half of those are exposed to 'very high' geopolitical risk according to our model.

However, companies in key industries in the S&P 500 (US) and the Nikkei 225 (Japan), including strategic and highly valued technology and AI-related stocks, also have operations straddling countries on both sides of diplomatic conflicts, leaving them markedly exposed to volatility in the event of a geopolitical shock.

The key disputes measured by our Interstate Tensions Model span Asia, the US and Europe and constitute the main drivers of geopolitical risk across the stock markets we assessed. Notably, all but one of these potential flashpoints have intensified or remained elevated over the last five years. The lesson for investors and companies looking to manage their exposure to geopolitical risk is clear: the threats are systemic in nature and getting worse.

European stocks have highest exposure to geopolitics outside their borders

Geopolitical tensions affecting the stocks of companies in the home countries of these indices – the US, Japan, Germany, France and the UK – have also increased in recent years. These risks are broadly understood and priced in by most investors and issuers. But without data on the asset locations of companies globally, it is the complex and often opaque cross-border vulnerabilities of foreign assets that can create blind spots in portfolios.

Our Asset Risk Exposure Analytics (AREA), which combines the global asset locations of 50k public companies with data assessing 85 political, environmental, climate and human rights risks, has been developed to bridge this gap. According to AREA, the three European indices have higher overall foreign exposure to geopolitical risk compared to the S&P 500 and the Nikkei 225.

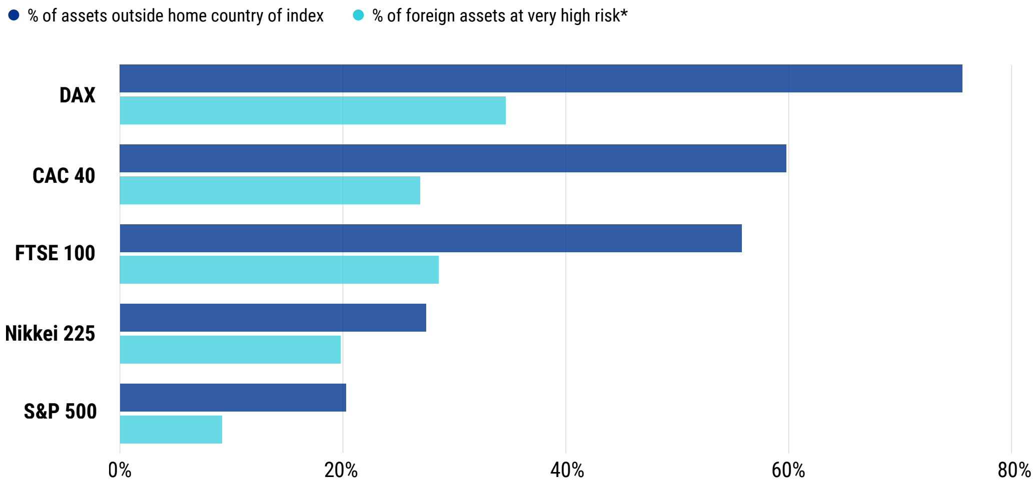
76%
of the assets of companies in Germany's flagship DAX index are located abroad

Most strikingly, 76% of the assets of companies in Germany's flagship DAX index are located abroad, with 9% located in India alone. And, as shown in Figure 1, it's a similar story for France and the UK, with 60% of the CAC 40 assets and 56% of the FTSE 100 assets located outside their listed home countries.

These extended foreign footprints translate into higher exposure to geopolitical risks. The DAX is by far the most threatened, with 35% of assets at 'very high' risk on our Interstate Tensions Model, which measures the risk of states engaging in disputes that include the threat, display or use of force. These hidden vulnerabilities have the potential to lead to tangible market impacts through operational disruptions, impeded trade flows, reputational risks, or sanctions and fines should they result in disputes or conflicts. The market turmoil of 2022 is a powerful example of this, when European stock markets fell by up to 17% in response to Russia's invasion of Ukraine.

Figure 1: Leading European indices have higher foreign exposure to geopolitical risk

Geopolitical risk exposure for foreign assets of leading market indices



*As per data from our Interstate Tensions Model, which measures the risk of states engaging in a militarised dispute that can include the threat, display or use of force. Very high risk for a country, or an asset located in that country, corresponds to a 12-month risk of 75% or more of a militarised dispute between that country and one or more other countries.

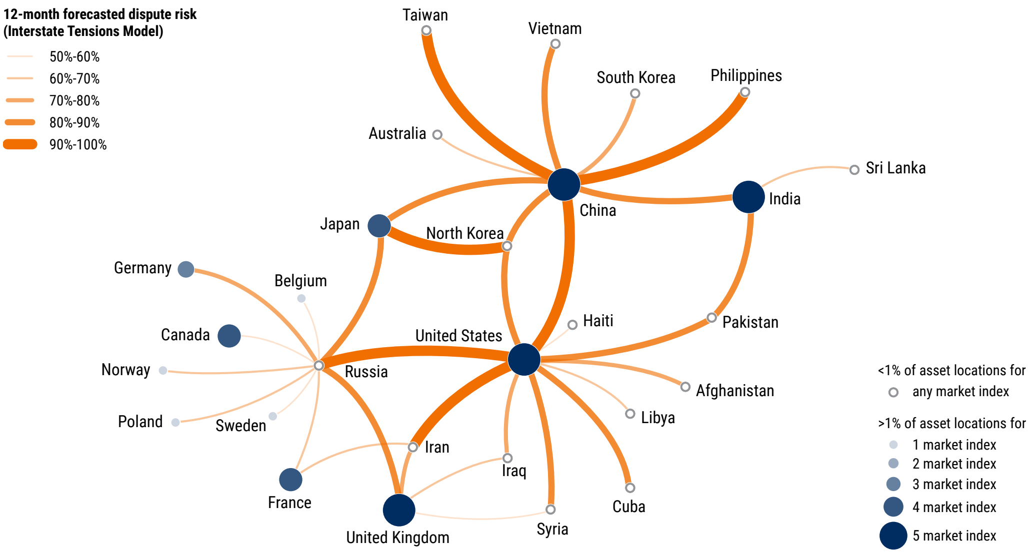
Source: Verisk Maplecroft

Troublingly for asset owners and asset managers, these leading market indices aren't exposed to dozens of different conflicts that can be easily avoided or diversified away. Instead, they are all systemically vulnerable to the same set of key risk hotspots: tensions between China, the US and its Asian allies, between India and China, between India and Pakistan, and between Russia and the West, as shown in Figure 2.

“A US-listed company, for example, doesn’t need to have sites in Russia to be exposed to potentially material impacts

Figure 2: The key geopolitical conflicts stalking markets

Interstate Tensions Model, 12-month forecasted militarised dispute risk between selected countries, with countries sized by relevance to five global market indices

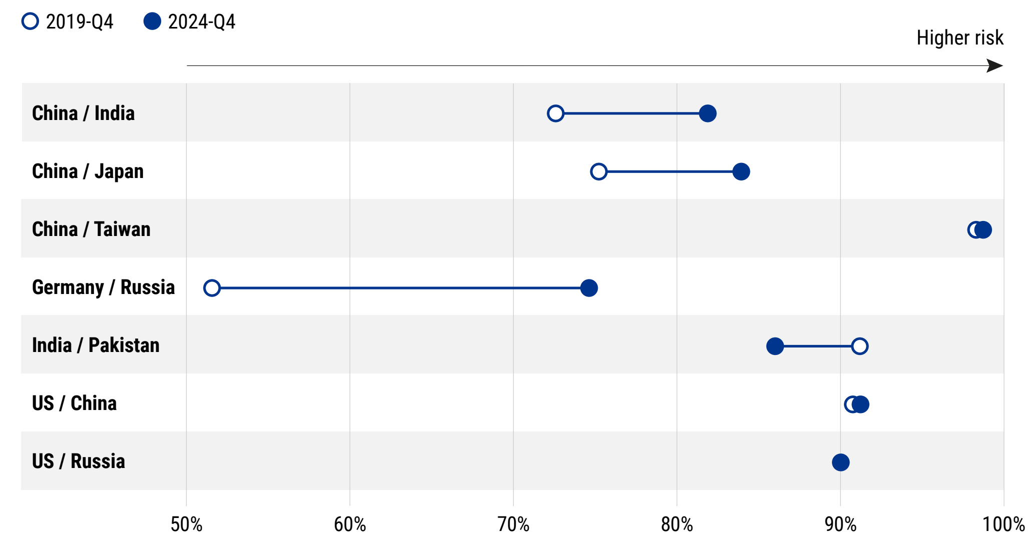


Source: Verisk Maplecroft *© Verisk Maplecroft 2024*

Over the last five years these disputes have either remained fraught or have worsened: only in the case of India versus Pakistan have tensions marginally eased. When it comes to financial risks in the event of a major geopolitical shock, exposures on both sides of a dispute matter: a US-listed company, for example, doesn’t need to have sites in Russia to be exposed to potentially material impacts - it is enough to have key operations in sensitive European locations such as Norway or Poland.

Figure 3: Tensions have worsened or remained elevated in key geopolitical hotspots

Interstate Tensions Model, 12-month forecasted militarised dispute risk for key geopolitical pairings, 2019-2024



Source: Verisk Maplecroft *© Verisk Maplecroft 2024*

"Many companies in the technology, electronics and AI-adjacent industries, such as semiconductors, are among the most exposed to geopolitical risks

Strategic US, Japanese industries stretched across geopolitical divides

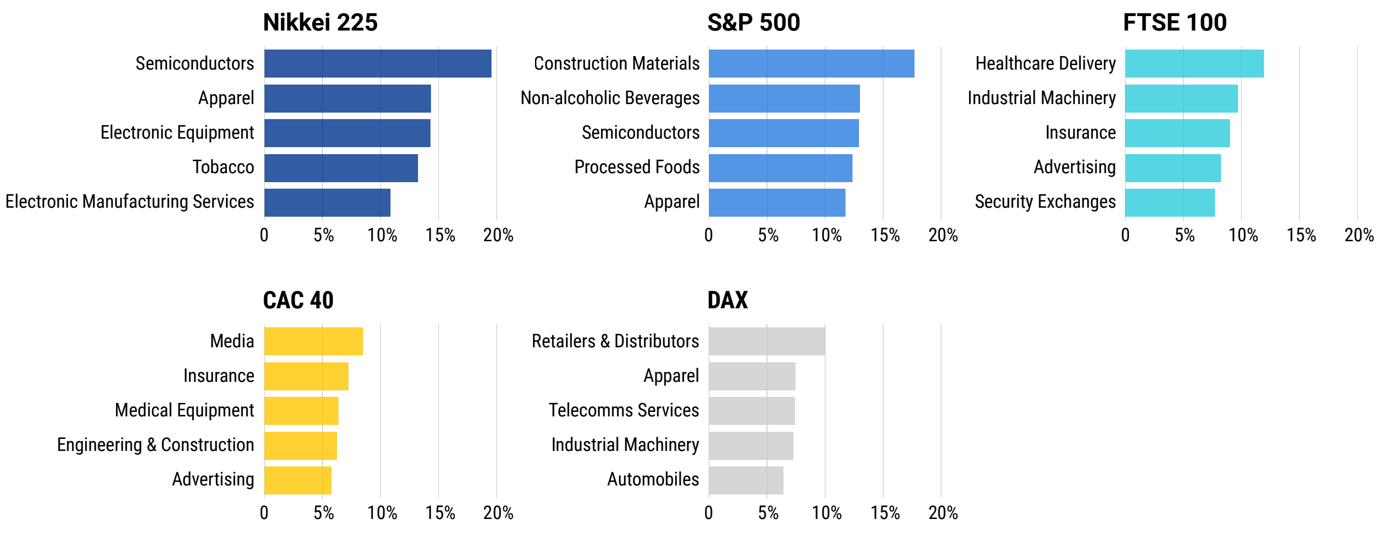
At the surface level, the S&P 500 and Nikkei 225 look to be on much safer ground. As Figure 1 shows, they have significantly fewer assets outside their home countries, and much lower proportions of their asset footprint exposed to 'very high' geopolitical risk on our Interstate Tensions Model.

However, both indices are acutely exposed in another crucial way – through the operational footprints of their key industries. As Figure 4 illustrates, many companies in the technology, electronics and AI-adjacent industries, such as semiconductors, are among the most exposed to geopolitical risks, particularly in the event of a direct confrontation of some kind in Asia. For the S&P 500 these risks are potentially very material given the extremely high valuations currently associated with these industries.

Alongside these strategic industries, apparel and retail value chains, long characterised by growth-seeking in new markets and cost-optimising offshoring, are also at risk. The supply chain exposure of all these industries, while not directly quantified here, is likely to be as great or even greater.

Figure 4: High-value industries among the most exposed to geopolitical risk

Interstate Tensions Model, highest risk sectors for leading market indices and average asset-weighted risk



The x-axis refers to the average risk of disputes between the host countries of any two assets in a company, aggregated to the industry level.

Source: Verisk Maplecroft

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Find out more, use our data to help manage your risks.

While all eyes may currently be on conflicts in the Middle East and Eastern Europe, our research suggests that investors and corporations need to maintain vigilance with regard to a range of other diplomatic disputes that could be much more consequential for company operations. As asset owners, managers and businesses deploy ever-more-sophisticated metrics to quantify and act on their exposure to climate, nature and social risks, the merits of bringing a similarly quantitative approach to political risk – especially complex cross-border geopolitical risks – have never been clearer.

Protectionism spiking as critical minerals race intensifies

Major developed economies at forefront of global rise in state interventionism

Jimena Blanco
Chief Analyst

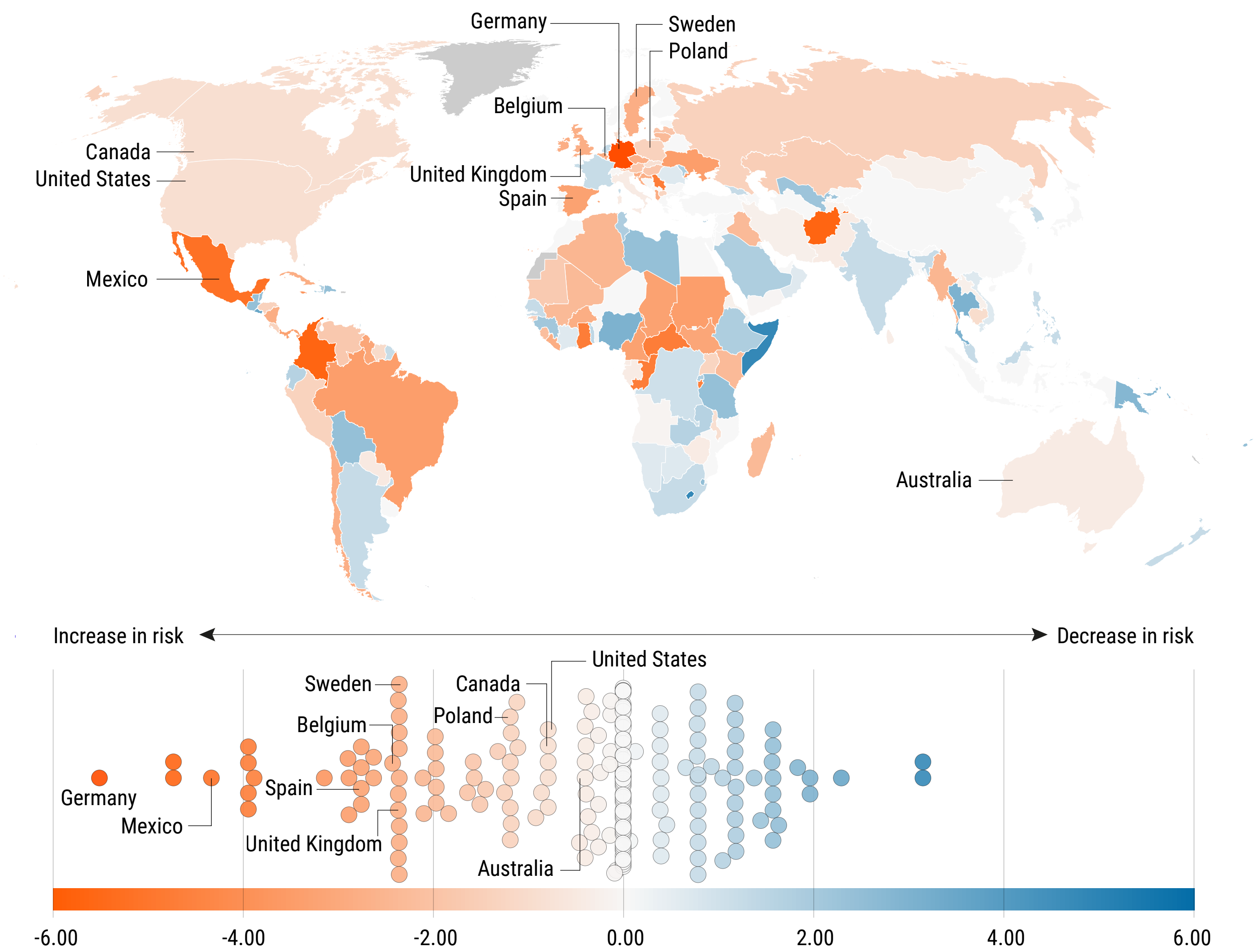
Jess Middleton
Senior Data Analyst

Geopolitics are fuelling a dual rise in state intervention and protectionism at levels not seen since the first half of the 20th century in Western democracies. The new driving force behind this trend is governments in Europe and North America looking to safeguard their access to critical resources amid mounting national security concerns.

Our Resource Nationalism Index (RNI), which measures government control of economic activity within the mining and energy sectors in 198 countries, shows that 72 have seen a significant increase in interventionist policies and protectionism over the past five years.

Figure 1: Resource nationalism risks have intensified globally since 2019

Resource Nationalism Index, change in risk from 2019-Q4 to 2024-Q4



Risk scores are allocated on a scale running from 10 to 0, with 0 indicating highest risk. A shift of -0.34 or more is considered significant.

Source: Verisk Maplecroft

"41 countries, responsible for 41% of global mineral output, now fall within the two highest risk categories of the RNI

The trend has intensified most within Europe, with the major economies of Germany, Spain, the UK and Poland all registering major deteriorations on the index since 2019. Nowhere is this more prevalent than in Germany, which has seen the largest drop in score of any country in the last five years. Tightening trade and foreign investment rules have also driven an uptick in risk in the US, Canada and Australia, highlighting a growing shift toward nationalist economic practices within Western industrial policy.

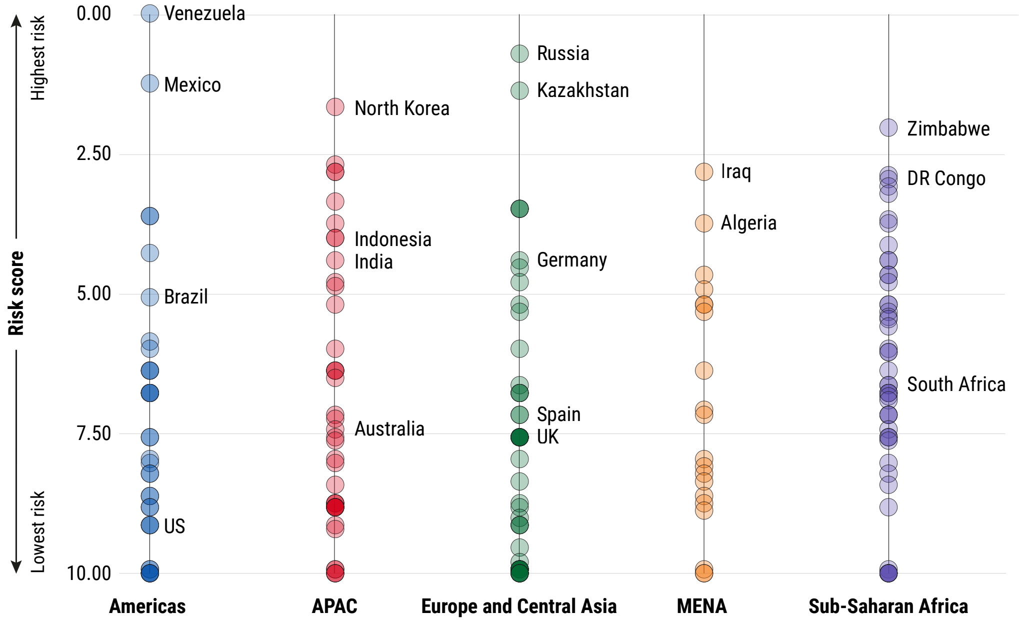
The fracturing geopolitical landscape and the fallout from major shocks such as the pandemic and Russia's invasion of Ukraine have spurred an acceleration of policies aimed at acquiring the minerals needed to power the green transition and bolster energy security. State focus on supply chain security has opened the door for companies to take advantage of attractive incentive schemes, but geopolitical divergence could increasingly limit opportunities to allied or friendly jurisdictions.

Europe moves to safeguard its critical supply chains

Governments worldwide are increasingly tightening control over their natural resources, a trend that has accelerated over the past five years. In total, 41 countries, responsible for 41% of global mineral output, now fall within the two highest risk categories of the RNI, up from 30 in 2019-Q4.

Figure 2: Venezuela, Russia highest risk for resource nationalism, but trend rising in the West

Resource Nationalism Index, 2024-Q4 risk scores



Risk scores are allocated on a scale running from 10 to 0, with 0 indicating highest risk.

Source: Verisk Maplecroft *© Verisk Maplecroft 2024*

“...shifts in trade and investment policies have driven scores on our Resource Nationalism Index downward

Unsurprisingly, the 10 highest risk jurisdictions include several major mineral and oil and gas producers that have long deployed ‘traditional’ resource nationalist policies, such as expropriations, nationalisations and resource rent hikes. These include Venezuela (ranked 1st and highest risk), Russia (2nd), Mexico (3rd), Kazakhstan (4th), Zimbabwe (6th), and Iraq (9th).

However, factors such as Europe’s reliance on Russian energy and China’s dominance of critical mineral supply chains are now driving a shift in protectionist and state interventionist policies in the West, increasing resource nationalism risks. These aim to leverage state power to subsidise key industries, secure access to critical resources and restrict foreign investment from geopolitical rivals in strategic sectors.

Germany, for example, has dropped 122 places in the ranking - from 154th five years ago to the 32nd highest risk jurisdiction now. This has been fuelled by the need to fulfil both short- and long-term strategic goals. For the former, this has included measures such as the seizure of assets from Russian energy giants Gazprom and Rosneft following the invasion of Ukraine, as well as the imposition of windfall taxes on energy profits.

On the long-term policy front, critical mineral supply chain security has become a central tenet of Germany’s industrial strategy. Scholz’s administration, like Merkel’s before it, has offered subsidies and incentives to boost domestic processing and manufacturing capabilities. Berlin has also formed strategic partnerships with resource-rich countries such as Canada and Australia, securing access to minerals like lithium, cobalt and rare earth elements through long-term agreements.

Similar trends are evident throughout the European Union, reflecting a broader shift whereby national security concerns are increasingly influencing the bloc’s natural resource and industrial policies. Initiatives such as the European Raw Materials Alliance (ERMA) and the EU Critical Raw Minerals Act specifically aim to cut reliance on external mineral sources through investment in sustainable mining and recycling within Europe. The EU is also diversifying its supply chains by investing in mining projects in Africa and South America and encouraging European companies to reduce their dependence on competing states.

US and Canada tighten trade and investment policies

Across the Atlantic, shifts in trade and investment policies have driven scores on our Resource Nationalism Index downward, notably on our indicator measuring regulatory or taxation system changes that hinder business operations or raise costs.

The US, for example, has passed legislation such as the CHIPS and Science Act and the Inflation Reduction Act, bolstering domestic critical mineral and semiconductor production while limiting Chinese involvement.

“As state rivalries intensify, protectionism and state intervention are likely to drive further fragmentation in the global energy sector

It has also formed the Mineral Security Partnership with Australia, Canada, Japan, India, Korea, the UK and the EU 27 in a bid to safeguard access to a host of critical minerals, while also enacting additional trade and investment controls. The Partnership received a boost in September with the launch of an associated financing network to develop major mining projects that will strengthen supply chains and restricted their use in the defence industry, which the incoming Donald Trump administration is all but certain to tighten.

In Canada, the strategy has evolved through a mix of regulatory actions, foreign investment restrictions and strategic economic measures. Key among these are the Investment Canada Act, the Critical Minerals Strategy – which tightens foreign investment rules to keep resources under Canadian or allied control – and stricter environmental and labour regulations, which Chinese companies will likely struggle to meet.

‘Strategic’ resource nationalism another driver of geoeconomic fragmentation

As state rivalries intensify, protectionism and state intervention are likely to drive further fragmentation in the global energy sector, particularly in critical minerals and renewables. Going forward, the most likely scenario is that Western nations will increasingly use a mix of trade and investment policies, along with stricter sustainability standards, to restrict trade with rivals and secure supply chains. This will create a complex risk landscape for investors across a variety of policy areas that will span the entire value chain.

We do not expect Western democracies to seek market dominance through State-Owned Enterprises, but rather to form a new partnership between national and corporate interests by offering benefits and incentives to ‘reshore’ supply chains closer to home in geopolitical terms through new alliances. The risk of raising costs by decoupling from specific rivals is already being priced in.

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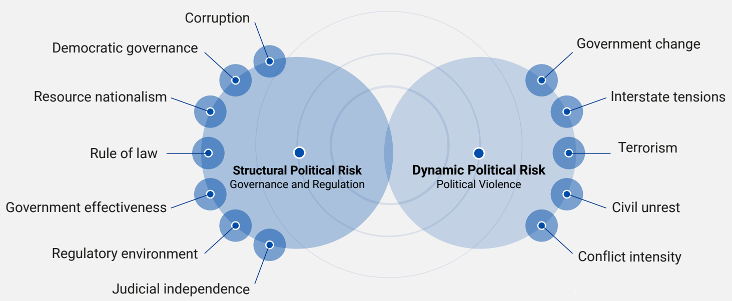
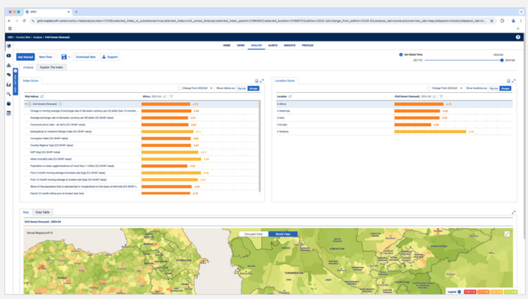
64 political risk indices and predictive models
to serve corporations, insurers and investors

Sample range of issues covered by the indices



Civil Unrest Index



198
countries

64
risk issues

6
subnational
risk issues

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Asset Risk Exposure Analytics (AREA) – for equity and corporate debt investors

AREA measures the risk exposure of over 50,000 listed companies and their 4 million global assets across 85 issues and 198 countries. The data helps investors to more accurately assess how risks on the ground are affecting the organisations they invest in. Providing unrivalled intelligence into how political risks and geopolitics are evolving, AREA offers the insight you need to understand how these issues can impact your investment portfolio. Delivered via API, AREA includes the following attributes:

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