Corporate calm vs economists' concerns: why opinions are divided on the impact of geopolitics

While geopolitics tops most risk lists, quite a few corporate leaders privately believe it won't negatively impact their companies. As economists, we are puzzled, but there are valid reasons why the C-suite is more upbeat, offering valuable insights for both businesses and economists

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While geopolitics tops most corporate risk lists, many business leaders currently believe it won't have a strong negative impact on their companies. This is puzzling to economists, but we found some valid reasons why the C-suite is more upbeat, offering valuable insights into the global economic outlook for both businesses and economists.

The negative effects of geopolitics

We interviewed decision-makers from European businesses with a significant global footprint and from different industries in December 2024 and January 2025. When asked to list the biggest negative impacts of geopolitics on their companies over the last decade, two issues stood out.

The war in Ukraine is key. Many European corporates had large and profitable activities in Russia before the war, most of which have since been let go. Looking ahead, corporates see a further escalation of this war into Europe as the most impactful potential event.

The other negative for corporate decision-makers right now are supply chain challenges such as tariffs, export controls and sanctions. Related to this, relative (energy) price developments have been hard to manage for many businesses.

The indirect impact via the economy was usually not mentioned among the most significant effects of geopolitics. This impact came up more when we asked about less significant effects.

Notably, only a few respondents highlighted decoupling from China as very significant, most corporates saw the potential effect of this as rather limited. Some corporates mentioned the downside of deregulation for their business model, especially those active in sectors that benefit from the greening of the economy.

The positives

When asked, three positives were mentioned. The first relates to increased activity in Europe, companies expect to benefit from additional production facilities in Europe to replace imports.

Secondly, companies see European lawmakers' attitudes shifting due to geopolitical tensions, leading to less regulation and more direct financial support for businesses.

Third, many corporates believe they could gain market share by being better prepared than others when it comes to supply chains, being agile or using hedging strategies to mitigate price changes.

The net effect is expected to be limited

When we asked about the net effect of geopolitics on their company, to our surprise, nearly half of the companies we interviewed were either unsure or believed it has been only marginally negative or even positive overall. Some believed the impact had been negative in the past but expected to gain in the future, as they would gain an edge over competitors or see increased activity in their sector in Europe. Whatever those risk lists are saying.

This sentiment in European boardrooms matches other confidence indicators and financial market activity. Recent European business confidence surveys do not suggest an overly downbeat corporate community. Stock market valuations do not show signs of stress, nor do credit risk spreads.

In a survey of Dutch CEOs last year, they were largely positive about the outlook for 2025 and the potential economic impact of the US election. Corporate leaders in Davos were also quite upbeat – both on stage and behind the scenes.

These interviews confirm a pattern: the corporate world does not seem to believe we are on the verge of a significant negative event or global economic change. But this is quite a disconnect from what economists expect. The latest Chief Economist's Outlook from the World Economic Forum warns of subdued growth and a tumultuous year ahead.

So why are economists worried while corporate decision-makers are not?

Diverging attitudes and timing

Let's start with the basics: Corporate leaders are very different to economists. To lead a company, a good dose of optimism and positivity can help, while economists are more prone to focus on risks.

Recent experience may also play a role in these diverging attitudes. ING interviewed corporate leaders right after the US elections when there was a relatively positive sentiment flowing through US news.

The recent past

Looking back, the limited impact can be explained: while global GDP was affected by trade wars and the war in Ukraine did slow the European economy, neither has led to a deep economic crisis.

There is an important nuance here, however. Governments mitigated the economic effects of the war in Ukraine by spending several percentage points of GDP to shield households and corporates from costlier energy. This directly and indirectly benefitted businesses.

Further, corporate leaders tend to focus on the direct impacts of geopolitics, like supply chain friction and sanctions, while economists focus on overall demand and higher interest rates when assessing the recent effects of geopolitics. The recent increase in inflation can be largely explained by the war in Ukraine. This hampered purchasing power across Europe and worsened its export position.

As a consequence financing costs for corporates went up strongly. So, while most European companies have been hit by geopolitics indirectly, they may not take all of these effects into account.

Forward-looking perspectives on geopolitics

Looking ahead, we agree with the C-suite in that even economists should not exaggerate the short-term shock of a trade war. We see it as a clear negative, but of a smaller magnitude than the energy price shock Europe experienced. When analysing geopolitics, however, economists may also have other, unexpected risks in mind, also known as tail risks – decoupling from China or an escalation of the war into Europe, for example.

But setting these tail risks aside temporarily, there are three reasons why the long-term effects of geopolitics on economic growth will still be significant. Firstly, uncertainty leads to reduced corporate investment, which undermines demand in the short term and supply over the longer term.

Secondly, while some companies see advantages in recent policy shifts such as the simplification of regulations, there are risks too. Over the long term, strong corporate lobbies can limit creative destruction and may lead to monopolistic behaviour. That can be beneficial for market incumbents, but it can also lower a country's growth potential.

Finally, geo-economic fragmentation as a result of trade wars can prevent corporates from making use of competitive advantages and global supply chains. This lowers the average cost of production of goods like electronics while enhancing the average productivity and thus wages of workers in Europe. These benefits gradually manifest in workers being able to buy more for every hour of work and thus in economic growth. But its positive impact is thinly spread and hard to recognise in everyday life.

In contrast, establishing an additional production facility in Europe due to reshoring is tangible and appears to be a net benefit but, in reality, net corporate growth is harmed as Europe's long-term growth potential is gradually eroded by this kind of fragmentation.

Different geo-economic lenses

So putting it all together, the puzzle created by these differing opinions can be solved by clarifying whether we are thinking about direct or macro impacts, trade wars or tail risks, and short-term shocks or long-term erosion. In this respect, an economic lens can give a very different perspective on the global economic outlook from a corporate lens.

This is not a story about being right or wrong – it's about different perspectives. Efforts to analyse both corporate calm and economists' concerns right now will help us all to make sense of today's complex world.

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