International Business Needs Grand Strategy

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INTERNATIONAL BUSINESS NEEDS GRAND STRATEGY

ABSTRACT

Today's corporate leaders face an unprecedented challenge: the rules-based international order in which they operate is breaking down. The 70-year trend of globalization, where trade barriers were systematically dismantled and where businesses were allowed to compete internationally with ever-decreasing government interference, is no longer dominant. Where products are built, and by whom, suddenly matters. COVID has exacerbated this reversal, but this change has been brewing for decades.

The People's Republic of China (PRC) built its economic success on neo-mercantilist policies which create dramatic, asymmetric advantages for its local companies. Chief among these advantages is the unfettered use of state power to support the growth of Chinese companies, including access to cheap capital, trade barriers, forced expropriation of overseas competitors' intellectual property, corporate espionage by state agencies, and protectionist policies and regulations. This basket of policies has enabled the PRC to create a series of successful national champion companies in strategic industries at unprecedented speed. The key innovation in this model is the aggressive use of state power directed against foreign corporations.

Thinking on corporate strategy has not caught up to this trend. Such thinking typically starts with the assumption that governments will act as honest brokers and market-makers to set the rules but rarely interfere in the outcome. This view is dangerously outdated and has resulted in a series of interactions with autocratic regimes by western companies that have generated negative shareholder value. In response to these challenges, the leaders of international business should develop grand strategy in order to deal explicitly with adversarial political actions.

Typically, "grand strategy" is a term of art that designates how states engage in a quest for power among adversaries; it highlights the process by which states assess and then mobilize their assets in anticipation of military conflict. Grand strategy for corporations is differentiated from both the grand

strategy developed by states for defense and war and from corporate strategy, which is primarily concerned with economic competition within the context of free markets.

For international business, grand strategy should be understood as the ability to extract choices promoting value from political circumstances. Extracting choices requires a profound awareness of current and future political circumstances that may impinge on the operations and long-term profitability of business. Though grand strategy necessitates an appreciation of the assets available to navigate an uncertain political environment, of greater import is an awareness of that environment, particularly the values and strategies of those adversarial regimes through the territorial jurisdictions of which flow the chains of supply and demand. Thus, grand strategy is not only about how to react to changing political circumstances but, more importantly, about what those changing circumstances portend.

This paper recommends the creation of an office of grand strategy, reporting to the CEO, for international businesses. This office will have ownership of articulating and implementing a grand strategy in order to mitigate political risk.

INTRODUCTION

In today's parlance, anything involving forward, long-term thinking and a desire to rise above the day-to-day challenges of policy implementation is anointed with the halo of "strategy." This label is applied to variety of fragmented and pedestrian activities: There is an "I.T. Strategy," an "Accounting Strategy," a "Marketing Strategy," and so forth. Frequently, strategic thought also encompasses the formulation of discrete dualisms: diversification versus specialization, vertical integration versus horizontal expansion, internal innovation versus technology licensing, acquisitions versus divestitures, competing on features versus price, participation in standards versus the creation of differentiated solutions, outsourcing versus internal activity, movement up versus down the value chain, investing in technology versus branding, choosing what new markets to enter versus exit, et cetera. Although most large companies will claim to have an overall strategy, rarely is a holistic approach successfully implemented that transcends these individual choices.

One pathway out of this morass is to accept the possibility that there are multiple levels in the formulation of strategy. According to the now classic article by Michael E. Porter (1987), there are tactics, at the level of the business unit in a diversified company, that must be developed in order to remain competitive. Considerations such as the strengths and weaknesses of competitors as well as the overall growth in the market are among the key determinants of the opportunities for and threats to success. Porter makes the point that for a diversified company, corporate leadership must determine the attractiveness of the business, the costs of incorporating, and the likely benefits of acquiring a new business unit. Although they can just as easily be extended to other forms of growth, these three calculations occur in the context of how the acquiring company is (re)organized: will it engage in portfolio management, restructuring, transferring skills among units in the corporation, or sharing activities? In effect, Porter is arguing that tactical, competitive maneuvering is a short-term response to quarterly reporting. Strategy, however, is the repositioning, over the longer run, of a corporation through acquisition, the start-up of new business, divestitures, and reorganization in order to enhance shareholder value. What Porter's astute analysis fails to consider is the systemic relationship between business and government: for example, what if a corporation wishes to anticipate how government officials will view an acquisition given anti-trust regulations?

Therefore, even Porter's sophisticated appreciation of competitive tactics and corporate strategy neglects a third level of strategic thought and action: grand strategy. An appreciation of corporate strategy, which by-and-large ignored the relationship of corporations to governments, was perfectly appropriate for a recently bygone era—namely the era of unrestrained economic globalization (Cline & Henisz, 2019).[1]

After the fall of the Berlin Wall, economic globalization and the victory of western values appeared triumphant and unchallenged. Markets became freer, most governments stepped back from "burdensome" regulation, and personal freedoms were enshrined in fundamental law over what seemed to be an ever-expanding fraction of the world. The victory of the West appeared politically and intellectually unassailable. A cottage industry of publications proclaimed an end to history (Fukuyama, 1992) and the decline of the state as a coercive apparatus (Naím, 2013), the victory of laissez-faire capitalism, and the flattening of the earth as goods and services moved in an unfettered fashion across decaying state boundaries (Friedman, 2005). Countervailing events, such as the emergence and rapid growth of ISIS and the development of first a gangster-state and then an autocracy in Russia, were widely dismissed as anomalous. After all, there was no rational accounting for what religious fanatics may do, and the Russian market was small enough to be comparatively trivial in the post-Cold-War world.

Despite such temporary upticks in geopolitical uncertainty, most western business leaders and politicians remained convinced the world was becoming increasingly flat. But this flattening was not in any way inevitable; it was the product of policy choices made by the United States government and those of our allies, starting in the aftermath of World War II, when the United States was the only industrialized nation left with a functioning economy and undamaged production capacity. With the General Agreement on Tariffs and Trade (GATT), the World Trade Organization (WTO), the World Bank, and other treaty organizations, as well as the creation of the Schengen zone and any number of bilateral trade agreements, the U.S. systematically went to great trouble to flatten the world for western businesses. With the industrial plant of the Soviet Union, Europe and Japan in ruins, the United States had incredible leverage at the end of World War II.

While they flattened the western world by lowering trade barriers, reducing duties and tariffs, and opening up the free flow of information, people and capital, the United States and its allies maintained and even enhanced the barriers to trade with the Warsaw Pact, the People's Republic of China (PRC), and the Soviet Union. In effect, the West constructed an economic plateau with a massive cliff preventing trade with its Communist adversaries. On the western plateau, regulation was predictable, changes were generally incremental, taxes were enforced fairly uniformly, and governments could be expected, by and large, to enforce contracts and resolve disputes among businesses in a reasonably objective way, according to the rule of law. As a result, business thrived, and incredible wealth was generated.

Then, in the early 1970s, President Richard Nixon and Secretary of State Henry Kissinger began to expand U.S. relations with China in order to create a territorial flanking threat aimed at the Soviet Union.[2] This détente threatened the Soviets with a two front war and was one of the major reasons for the unraveling of the Warsaw Pact (in 1989) and the implosion of the Soviet Union (in 1991). In the aftermath of the Cold War, the United States and its Western European allies invited the PRC onto the western plateau through mechanisms like the WTO; however, these powers sought assurances that Communist China would adhere to the international commercial rules. The western powers proceeded to implement a series of legal requirements—such as the protection of intellectual property as specified in the 1995 WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)—that China proceeded largely to ignore (Bacchus, Waterman & Ennis, 2018). After China acceded to the WTO, additional states invited on to the western plateau had negligible economies and frequently did not share western values.[3] Although China and many of these poorer, non-western states were brought onto the plateau, the leadership of these states in many cases held fast to the profoundly held belief that the international commercial order, established by the United States and its Western allies, was rigged against them.

Instead of seizing foreign assets such as factories, China developed stealthy economic policies that imposed risks and long-term costs on international corporations. This reliance on policy, as opposed to expropriation, is part of a wider trend. In 2010, Witold Henisz and Bennet Zelner discussed the risks associated with operating international businesses within the borders of nation-states where the rule of law was weak. According to their analysis, during the 1960s and 1970s, the principal risk to international business in the Third World had shifted away from direct expropriation:

> The chief concern was “expropriation risk,” the possibility that host governments would seize foreign-owned assets. Today, this risk has largely disappeared. Stronger international law and the symbiotic nature of growth in emerging and developed economies reduced asset seizures to nearly zero during the 1980s.

Their central point was that while the risk of expropriation had largely disappeared due to the emergence of strong international laws and norms, the new risk that needed to be considered carefully was associated with policy instability and weak government–what they referred to as “policy risk” (Henisz & Zelner, 2010).

Western business leaders responded to the risks arising out of policy instability by promoting flattening processes, which aligned the regulatory environment across multiple states.[4] They secured, through their various responsive governments, reciprocal agreements to open domestic markets. Their governments also reduced or eliminated tariffs and other restraints on commerce. International supply chains and offshoring of various specialized activities continued to respond to the maximization of profit and of enterprise value, by (for example) reducing labor and capital costs, tapping into specialized labor pools, and leveraging the opportunity to benefit from different laws and cultural practices in varied jurisdictions. As western nations competed by offering positive incentives for corporations to locate their economic activities within their borders, there was a slow-motion race toward reducing the friction associated with commercial supply chains.[5] Large, multinational corporations came to be considered fundamentally international entities, unmoored from their respective authorizing sovereigns (Fox, 1980).

On balance, at the end of the Cold War, the (arrogant) working assumption among the western elite was that the rest of the world would become, economically, politically, and culturally, more like Western Europe and the United States. Western Europeans, reacting to two world wars during the twentieth century, sought to achieve a federative world in which hard, military power is eschewed in favor of diplomacy and other mechanisms of soft power. The leadership of the United States imagined a world in which an increase in trade, the expansion of the middle class, enhanced protections for private property, and political liberalization would inevitably take hold and advance. Until the victory of commercial and associated values, the U.S. military stood ready to ensure collective security by curtailing the pretensions and power of “rogue” regimes, such as Iraq in the Gulf Wars. These somewhat divergent triumphalist positions also revealed an incredible disrespect and disregard for the centrality of indigenous cultures in the thinking and values of non-western peoples. By and large, people are not clamoring to give up their cultures or their values and become either Europeans or Americans. The belief that the United States or Western Europe would assume a cultural hegemony, based on economic success and victory in the Cold War or the good feelings derived from federation and emanating from political exhaustion, turned out to be utterly false (Kaplan, 2001).

Perhaps the most notable instance of a state advancing its own cultural ideals and economic formula for success was the PRC's rejection of western values. For years, the Chinese Communist Party had set non-reciprocal and unfair terms of entry to its domestic market. Initially, the West ignored this challenge to the laissez-faire paradigm of economic activity because China was economically quite small on an absolute scale, and later, on the grounds that China was still a developing country. This fiction enabled China to continue to receive favorable treatment from the World Trade Organization. Many Western countries believed that China was on a path toward economic growth and political liberalization—a belief grounded in the expectation that with the economic rise of China, a growing middle class would demand increasing transparency of the government and involvement in decision making.[6] This belief assumed that the CCP would relinquish power; however, under President Xi Jingping, the CCP instead has unabashedly and transparently stopped hiding the use of state power for economic and other purposes.

Today, the PRC has become the chief champion of autocracy in the world, and the CCP leadership has acted to create an alliance with other autocratic states, most notably Russia and Iran. What do these three disparate states have in common beyond despising the commercial and capitalist culture based on western values, which emerged from Judeo-Christian cultural heritage?[7] Russia, China, Iran and other Eurasian powers are all rooted in territorial control achieved through fiscal/administrative institutions and a standing army.[8] Furthermore, as the autocratic state with the strongest economy and technological capabilities, China has begun to export both their model of governance and the associated surveillance, military, and cyber-warfare capabilities and tools to their allies. China has become the arsenal of autocracy. The economies of Russia and Iran combined are less than 1/5 that of China; as a result, China is the leader of (what is characterized below as) the neo-mercantilist and autocratic world and is the state that most concerns western businesses. In most industries, Russia and Iran are negligible markets; China is not.

In 2012 China, essentially a territorial power that decided to expand its naval power, issued a geopolitical challenge to the West in the South China Sea, a major international trade route. China also claimed territorial jurisdiction over a swath of the maritime commons and asserted its ownership over various atolls in the waters of the Philippines. A tribunal at the Permanent Court of Arbitration at the Hague declared these actions illegal (Page, 2016). China's actions were clearly contrary to a United Nations convention on the law of the sea. The Chinese Communist Party has resisted any negotiations regarding sovereignty in the Spratleys and Paracels, has refused to participate in international arbitration, and has used military force to expand their claims over these atolls (Griffiths, 2015). President Donald Trump's administration responded "geo-economically" to the Chinese Communist Party's economic depredations and geopolitical power plays by imposing tariffs and using other economic means to secure its political ends (Blackwill & Harris, 2016). The resulting trade war has produced significant regulatory turbulence, creating risk and friction for international trade.

Suddenly, the prevailing understanding of the international order has been undermined. Pundits in the world of business forgive themselves for their ignorance of the politics in other cultures, in so far as understanding other cultures requires language skills and political events are widely assumed to be fundamentally unpredictable.[9] In a world that is no longer flat—and in reality, it never was—businesses need to appreciate the tenets of classical grand strategy in order to cope effectively with changing circumstances.

THE CHALLENGE: A NEW WORLD DISORDER

The critical feature of our new world is this fundamental geographic ambiguity: states typically operate within a territorial jurisdiction that is defined by borders and is controlled through an administrative, military, and fiscal apparatus. However, multinational corporations operate across these borders through the global movement of goods, services, labor, and capital (Fox, 1971; Hugill, 1999; Kindleberger, 1978). Such connections extend backward to suppliers and forward to customers, sometimes beyond the ability of any one entity in the chain to comprehend fully all the production and consumption nodes or the links formed by transport, travel and communication.

Thus, a supply chain is not merely linear—more often it is a branching, tree-like complex network (Network Topology, 1996), with multiple sources for a given item, and multiple sources for each of the sub-components (Laulajainen & Stafford, 1995). Sometimes, there will be several direct sources for a part, but all of them will be dependent on the same supplier for a crucial subcomponent, creating a potentially invisible chokepoint for production that is susceptible to political pressure. Often, the key skills and economic incentives for the specialized production of a given good create very strong local network effects, resulting in tight geographic clusters of specialist organizations, where all of the major competitors in a given market end up co-located. This allows competitors to tap into the same pool of skilled workers and suppliers and to poach talent from one another.

In the discussion of supply chains and supply chain assurance, the importance of demand chains is often forgotten. A business depends on the availability of parts from suppliers, but it also depends on being able to sell goods or services to customers, and onward in many cases to the customers of their customers. Thus, a business concern is at the center of a web of connections–a web of suppliers on one side and a web of customers on the other. The supply of talented workers is a third set of crucial connections that frequently involves movement across borders. Disruptions or pressure applied to either end of these networks can endanger the success or the existence of the business.

Such networks crisscross sovereign jurisdictions; thus, politically driven decisions that change these supplier and purchaser networks can be hugely disruptive if redundancy is not built into the network.[10] Redundancy can take on many forms, including multiple suppliers or customers in multiple jurisdictions (geographic/legal diversification), an ability to produce or consume parts internally to the business (vertical integration), or the maintenance of buffer stocks of critical parts (using money to buy time to stand up new suppliers). Where the power of states is attenuated and the use of state power to disrupt supply chains is improbable, efficiency and just-in-time delivery are an effective approach to supply chain management in pursuit of reduced costs. However, where production occurs in or transport crosses the boundaries of an autocratic regime, redundancy needs to be considered as a prerequisite for mitigating political risk.

Perhaps more critically, it is not enough to insulate the direct operations of a multinational corporation from the influence of an autocratic regime. Whenever a supplier or an end customer operates within the boundaries of such a regime, a corporation depending on either supplies or demand that is ultimately under the control of that regime may become subject indirectly to arbitrary and unpredictable political pressures.

The relationship between multinational corporations and state power is fraught with uncertainty. In weaker states or ones with looser regulations, corporations may ignore the legal strictures of the country in which they are headquartered or primarily located in order to secure a comparative advantage. The laws of the corporation's nominal home country will not apply (with specific exceptions, discussed below) when doing business in a different jurisdiction, so this is a perfectly legal and reasonable, though not necessarily an ethical, strategy. Multinational corporations have been known to locate business units in areas with weaker environmental regulations, anti-unionization regulations, attenuated human rights, lower taxes, and/or even access to slave labor.

These behaviors have produced a considerable backlash from western consumers. First, western governments and, in some cases, consumers have begun to demand values-based self-policing, expecting that businesses audit their supply chains to eliminate slave labor and reduce environmental externalities. Corporations commonly take these actions based their desire to maintain marketing and/or brand value. Sometimes these actions amount to virtue signaling as distinct from a demonstration of genuine corporate values (Roberts, 2017). In many cases, these compliance audits only reach the first level of the supply chain, rather than extending all the way to base materials.[11] These values-based activities take on a number of different forms as part of corporate branding, including: environmental action (for instance, the adoption of green energy); political actions such as divestiture (which particularly target Israel); local community engagement mitigating environmental degradation and poverty (as in the instance of the creation of community advisory councils) (Borné, 1988); the initiation of workers councils designed to promote the idea of employees (particularly in Europe) as “stakeholders” who are not necessarily shareholders; and the elimination of conflict diamonds, conflict minerals, etc. from the supply chain. In addition, U.S. export control law attempts, fairly ineffectually, to force businesses operating in the United States to audit and control the behavior of both the companies and end-users in their demand chain.

Second, some sovereign states have asserted jurisdiction over the behavior of their citizens or legal entities when operating overseas. For instance, the United States has used the Foreign Corrupt Practices Act and other similar laws to assert jurisdiction over the behavior of U.S. businesses and citizens with regard to corruption and bribery, regardless of where this behavior occurred (Tokar & Prang, 2020). Often, the connections to the U.S. that are cited by American officials when these laws are applied tend to be tenuous or questionable at best (Michaels, 2019). In response, the PRC also began to claim sovereignty over the behavior of citizens and entities overseas who have little or no clear nexus of activity in China.[12] For instance, the PRC has claimed that its recently passed laws against criticism of their power grab and treaty violations in Hong Kong apply to authors residing in the United States. So, if a U.S.-based author writes an article that highlights the CCP’s suppression of popular will for independence in Hong Kong, he or she is violating these laws despite the freedom of speech protections granted to him or her under the Bill of Rights (Moore, 2020; Craymer, 2020). Should overlapping assertions of overseas sovereignty be instituted, situations where an action will violate conflicting laws of the U.S. or PRC will create an insoluble dilemma for the executives residing in one country but doing business in the other. Situations may emerge where the laws of multiple countries are in direct conflict with one another, with one nation demanding a given action while another forbids that same action (Barrett, 2020).

Claims to extraterritorial jurisdiction, in particular, create dramatic challenges for the activity of international businesses, which have people, money, equipment and intellectual property in multiple jurisdictions. Whose laws should apply to a Chinese executive who escapes to the United States seeking political refuge when charged with corrupt practices in his home country, only to find that his former corporate employer (Huawei) is suing in United States courts to secure his extradition and that the PRC is threatening to seize his children and put them up for adoption (Viswanatha & O'Keefe, 2020)? What about the detention of U.S. executives traveling to the PRC when the CCP wants to exert pressure on the U.S. for the return of a Huawei executive accused of criminal wrongdoing (Cheng, 2019)? For digital activities, where the location of a transaction is often thoroughly ambiguous, how do western executives determine whose laws apply, when the different sets of laws are in direct conflict with one another (Harris, 2019)? For instance, one can easily imagine situations where data privacy laws demand the disclosure of underlying source code or hardware designs in one country, but export controls forbid the overseas disclosure of that same code from the country where the designs originate.[13] The PRC and their national champions have a history of demanding detailed design and source code from partners and suppliers, sometimes citing regulatory requirements as the justification, including cases where such disclosures would conflict with U.S. export control laws. In short, laws apply where and when a state has the power and the will to enforce them. By default, this is within the territorial jurisdiction of any state—but for powerful states, it can be anywhere in the world where they are prepared to make use of coercion, political or monetary influence, lawfare or violence.

Among the liberal democracies of the world, these differences in laws and practices can be resolved largely through treaties and arbitration, either bilateral or multi-lateral. And among the authoritarian states of the world—especially the emerging Russia-China-Iran alliance—it is reasonable to expect that agreements will be reached to allow business to be conducted by nationally-backed firms in the allied powers (Seliktar & Rezaei, 2020). However, over the past three decades, western businesses have struggled to figure out the right model for engagement with states that have assimilated market forces to the requirements of their grand strategy, that is, states that practice neo-mercantilism. In such autocratic states, business activities are a means by which to secure the ultimate goal of enhancing the power of the state, both domestically and abroad. In autocratic states that practice "neo-mercantilism,"[14] their corporations are in every meaningful way an arm of the state. It is foolish in the extreme to treat the corporate entities chartered by the PRC, Russia or Iran—or any authoritarian state—as anything other than a branch of their government.

In the PRC, the domestic neo-mercantilist market is huge, so the notional upside of engagement from the Western business community is enormous. This lures Western businesses in to engage in commerce within the PRC, and to a lesser extent in Russia, despite the political risk, which is now obvious and growing. Foreign-based businesses operating in China (and Russia) end up being forced to contend with a variety of coercive and unfair trade practices, including theft of intellectual property, constraint regarding the location of production and innovation centers, difficulty in moving profits offshore, local sponsorship of competitors by the government, direct threats of violence against executives and decision-makers, or bribery of their key employees to engage in industrial espionage and to establish competing enterprises.

As a result, it is difficult to identify a single instance of a western company in a strategic industry that has truly come to dominate the PRC market without the Chinese government rapidly standing up a local competitor (Yap, Strumpf, Volz, O'Keefe & Viswanatha, 2019; Yap, 2019; Wang, 2011; Kharpal, 2018; Kirby, 2016). Some exceptions, like fashion brands, high-end vehicles, or KFC, are simply not in strategic industries. Others, such as Apple and Intel, have prevailed because of their constant offshore innovation and despite the rapid growth of subsidized local competitors. The PRC allows these western companies to continue to operate in China because they have a significant onshore manufacturing engine and are a target for ongoing I.P. theft by onshore competitors. This set of interactions, along with economic scale and large numbers of local employees, gives Apple and some other firms some leverage in negotiations with the CCP. By contrast, it is easy to find numerous examples of PRC national champion firms who experienced incredible success in securing and maintaining significant market share in Western countries, such as Huawei, SMIC, HiSilicon, Alibaba, et cetera.

The PRC accomplished this by instituting a policy of international economic engagement, without significantly opening up domestic markets to foreign competition—despite its treaty obligations requiring the opening of its markets.[15] Foreign capital and ideas flow into the PRC, most commonly through joint ventures that are required to be domestically controlled. However, through a variety of legal, regulatory and extralegal means, these entities are rarely, if ever, permitted to establish dominant positions in the domestic market. In strategic industries, domestic competitors are inevitably chartered and massively subsidized in order to compete directly against these foreign entities, using state funding and with state-sponsored regulatory advantages to compete not only in the domestic market but also globally. PRC national champions will gladly sign NDA's with western companies and will gladly accept extensive confidential information that they will use in their own product development activities. In most cases, little or no information will flow in the other direction. The CCP has, in effect, created diodes for ideas and capital. Information and money can flow into China freely, but the outflow is tightly restricted and is allowed only to the extent that it serves the ends of the state. These idea diodes and capital diodes are an extremely powerful tool for creating asymmetry with regard to western businesses.

Western companies seeking to participate in the PRC's internal markets have found themselves stymied again and again by regulatory and permitting barriers and by their inability to enforce contracts against PRC firms or to obtain compensation for theft of intellectual property. Often, joint ventures with

Western firms are nothing more than a deliberate attempt to siphon off intellectual property and trade secrets (Saleen, 2020). Now that PRC firms have filed massive numbers of onshore patents (Wei & Davis, 2018; Gurry & Fink, 2019), many of them utterly fraudulent, western corporations can expect a wave of patent litigation as the newest barrier to western participation in local PRC markets. In effect, the CCP has treated western companies as adversaries and targets for sovereign action by using the full panoply of tools and weapons available to the state.

This is almost incomprehensible to many western business leaders, who have been trained in flat-world, laissez-faire thinking. In the West, market regulation is the end; government action is the means by which that end is secured. Businesses are often called upon to lobby the government during the process by which the rules are established.[16] What we have seen in the PRC is something fundamentally different. State power is being marshaled against non-state entities, and state sponsorship of ersatz corporate entities is used to allow these entities to gain international market shares by underpricing their purely commercial competitors. This behavior has been particularly prevalent and egregious in strategic industries, where the products being developed serve both commercial and military purposes. In effect, we have the CCP engaged in asymmetric and nonconventional warfare against western corporations.[17]

When the PRC was economically negligible, no dramatic response to this behavior was needed from the executive corporate leadership of the West. But now that the PRC represents an economy as large as that of the United States, the case is altered, and western multinational corporate executives need a framework for thinking about decisions that necessarily also involve political and cultural factors. For better or worse, the world is more complex than it was during the Cold War, when there were allies, enemies, and a few places that were of little economic importance who were non-aligned or hotly contested. Now there are multiple states with non-negligible economies, multiple alliances, and there are no sharply defined limitations placed on companies seeking to do business with autocratic and neo-mercantilist regimes.[18] What is needed is a grand strategy for international business.

CLASSICAL GRAND STRATEGY

Peter Drucker reportedly said that "Culture eats strategy for breakfast." This curious remark has sparked considerable controversy. Arguably, Drucker was emphasizing that strategy is often formulated at the highest levels of a corporation and only sometimes propagates widely through the organization. Culture, however, is an expression of the shared values and practices that unite the entire team (Hyken, 2015). As a result, culture tends to have far more impact than strategy on a corporation's success and corporate leadership is essential to setting a company's tone and values. Thus, while strategy can change from day to day based on pronouncements from leadership, culture tends to be dramatically more durable and resistant to change.

Clearly, this interpretation neglects the manner in which strategy and culture interact within the corporation (Kobulnicky, 2017; Rick, 2020) and, more importantly for our purposes, as a response to the wider cultural and political threat environment. A grand strategic viewpoint addresses the relationships of corporations to governments and seeks to reduce political and policy risk by anticipating the intentions and actions of external competitors operating on behalf of adversarial governments. To navigate these potentially uncharted waters, corporate leadership must be aware of the applicability of the maxims of grand strategy for multinational business.[19]

Perhaps the greatest author to deal with issues of grand strategy was Thucydides, who wrote in *The History of the Peloponnesian War* that polities go to war for three reasons: fear, honor and interest (Strassler, 1998).[20] In the modern world, "honor" is apparently in short supply, so Henry Kissinger amended this classic formulation by substituting the more anodyne term "values" for "honor" (2013, p. xi). Colin Gray, perhaps the most widely read modern author on the topic, wrote that "Grand strategy is the direction and use made of any or all of the assets of a security community, including its military instrument, for the purposes of policy as decided by politics" (2015, p. 47).[21] From ancient to modern authors, classical conceptions of grand strategy have focused on military conflict, the reasons for going to war, the state's purpose, and its coercive capabilities—your own state and those of your state's adversaries—and the ways by which defeat is avoided and victory might be secured.

More recently, Lawrence Freedman (2013) pointed out in the introduction to his recent and masterful book, *Strategy: A History*, that the idea of strategy has moved from being a concept largely used by military thinkers to one applied to every walk of life.[22] Strategy, at its core, denotes the application of available means, through appropriate ways, to knowable and desired ends, while weighing likely consequences—all in the context of adversarial circumstances. In the arena of interstate competition, classic grand strategy must take into account the coercive power of the state and has as its ultimate goal the strengthening of the state, usually by building the lethality of its military across a number of domains: traditionally across land, on or under the sea, and in the air, and in today's threat environment, in the cyber realm and in outer space.

Traditionally, states strategically interact in five ways. The first is the timely and effective application of military force. Second, they secure information about their adversaries' goals and means via spying. Third, states utilize chicanery to misdirect their adversaries. Fourth, states generate surprise and asymmetric advantage through innovation, whether technological, economic, social, or otherwise. Finally, they engage in diplomacy and gift giving/receipt to secure favorable relations with neutral, client, sponsoring and allied states.

The legitimate goals of classical grand strategy focus on war; nevertheless, they are much broader and all-encompassing. States alter the balance of power in order to preempt, forestall, or deter attack and preserve their territorial integrity by suppressing irredentist movements and garrisoning locations crucial for defense. They also seek to guard international borders against invasion, the spread of disease, the movement of contraband goods, and uncontrolled migration, whether in or out. In addition, states align their values with those espoused by key interest groups, elites and the electorate, thereby seeking to ensure the survival of the regime by shoring up the economic foundations on which it rests.[23]

Of course, the question of sovereignty is not merely a legal issue—all states are by definition recognized as possessing legal sovereignty. Freedom of a state's action is enhanced, however, to the extent that it is powerful, or is perceived to be so, and contributes to the balance of power (Mackinder, 1919, 1906/2019). The greater the power of a state, the wider and more effective its freedom of action, especially within its borders. Nevertheless, small, weak states must remain constantly mindful of, for instance, alleged human rights violations. Larger, more powerful states may be accused of such infractions, but they are largely immune from the consequences. One reason that many "pariah" states want nuclear arms is because these weapons seem to be an effective counterthreat, ensuring freedom of action domestically, and protecting the existing regime from outside interference and foreign attempts to engage in regime change.

As Thucydides reminds the astute observer of international relations: strong polities do what they will, weak ones suffer what they must. This strategic adage applies with particular force to those international entities that do not have the requisite military power to respond coercively to threats. That is why multinational corporations must ultimately rely on the protection of strong states when investing abroad, especially within the jurisdiction of autocratic states, particularly within those states hosting nominally capitalist economies.

Today, almost thirty years after the end of the Cold War, states that challenge the earlier understanding of a more economically open international order act by adjusting tariffs, engaging in currency manipulation, promoting trade imbalances, trying to incentivize the 'repatriation' of profits, engaging in lawfare and asymmetric regulation of foreign companies, changing tax structures, inflating the value of money to cope with debt, expropriating intellectual property, engaging in corporate espionage (both involving agents and involving digital tools or hacking), confiscating assets, weaponizing regulations, bribing or imprisoning executives of foreign competitors, and even making use of kinetic military force as part of a full spectrum of economic competition. These options are all available to sovereign states, exercised at the prompting of national economic champions, and may be applied to international corporations as a matter of local law.[24]

In fact, the traditional understanding of warfare in the West, that was most clearly articulated by Major-General Carl von Clausewitz, has now been turned on its head. Clausewitz defined war as "the continuation of politics by other means" (1984, p. 608). In other words, in warfare, the use of military force is the means to secure a (hopefully) clearly defined political goal. Since the implosion of the Soviet Union and, in particular, the overwhelming victories of the United States in the two Gulf Wars, rising powers have deployed other forms of action—political action, diplomacy, popular culture, electoral manipulation, indoctrination, attacks on civilians, narcotics trafficking, counterfeiting currency, technological innovation, financial manipulation, economic competition—which are tantamount to “war by other means” (Peters, 2011, pp. 306-313).

GRAND STRATEGY AND THE PRC

The PRC makes no secret of its intentions.[25] The latest statement of economic goals—the “Made in China 2025” white paper—indicates that China intends to move its production up the value chain to encompass development of information technology, advanced robotics, artificial intelligence, new materials, bio-medical innovation, aero-space engineering, advanced electronics, etc. According to one report, “China 2025 sets specific targets: by 2025, China aims to achieve 70 percent self-sufficiency in high-tech industries, and by 2049—the hundredth anniversary of the People’s Republic of China—it seeks a dominant position in global markets.” The means by which these ambitious goals may be achieved are of the utmost importance. According to a Council of Foreign Relations analysis (McBride & Chatzky, 2019), the Chinese government plans to directly subsidize these initiatives, perhaps to the tune of hundreds of billions of dollars. It will require (when necessary) the transfer of technology to China in exchange for access to its domestic market and will rely on state-supported businesses to realize its goals. China also plans to engage in "a large-scale import substitution plan aimed at nationalising [sic] key industries, or at least severely curtailing the position of foreign business in them, both as suppliers of key components·and·finished·products" (European Union Chamber of Commerce in China, 2017, p. 12). Just as Western governments must attend to the consequences for the balance of power of the Chinese drive to reach economic preeminence in these fields, international businesses should be mindful of how the Chinese government intends to reach its goals by tilting the competitive playing field in favor of indigenous businesses.

Statements like "Made in China 2025" highlight why there is no real or functional separation between the indigenous 'companies' operating in a neo-mercantilist, autocratic regime, such as the one dominated by the Chinese Communist Party. The Chinese government has asserted a right to control all aspects of these companies' behavior and all of their assets, and this assertion is backed by the arbitrary use of overwhelming violence (Limmer, 2013, J. Cohen, 2008, 2016, Seppänen, 2016). In the PRC, the CCP has gone as far as to require the presence of political officers at all significant companies, who represent the interests of the state and supervise operations for departures from state policy (Russo, 2019).[26]

By choosing to operate in neo-mercantilist and autocratic states, western executives expose their business and themselves to the operation of "sharp power" (Walker & Ludwig, 2017). By locating operations and personnel onshore in such states, employees are exposed to bribery, threats of violence, espionage and blackmail. Furthermore, such states have demonstrated an extreme eagerness with regard to monopolizing the production of key strategic materials, often through government subsidies and through the allowance of extreme negative environmental externalities; the most dramatic example of this is in the production and refining of rare earths. Access to secure supplies of these goods, over which the state has established an effective monopoly, can confer incredible market advantage compared to overseas competitors (U.S. Risks 'Devastating' Blow, 2019).

Moreover, the national champions of such regimes often operate as a monopsony or oligopsony. When purchasing goods from western companies, which operate in a competitive environment, these national champions may seek profits through reduced costs; however, they may also attempt to drive western suppliers out of business in favor of home-country vendors or to simply sow chaos throughout an ecosystem located abroad. Such strategies can play out over a very long timeline; simply reducing the gross margins of western competitors through the use of state subsidies can eliminate their ability to invest in R&D and harm their viability. Similarly, by creating exaggerated boom-and-bust cycles, from which the state-backed companies are themselves insulated, western competitors can be forced into cyclical layoffs. As a direct result, talented engineers can be driven out of western competitors and hired away, carrying their knowledge and experience to the national-champion competitors.

Taking on such competitors is extraordinarily challenging for western, profit-oriented corporations that rely on governments to act by default as 'honest brokers' and market makers. When a counterparty breaks a contract, executives generally think of taking legal action in a court of law. In the PRC—or in Iran, or in Saudi Arabia, or in Russia—there are no civil rights. There is no truly autonomous court system, and an appeal to the courts to stop the government from taking property, intellectual or physical, or depriving their subjects of life or liberty, is an exercise in futility. Each of these regimes have set up something that masquerades as a court system (Chin, 2014). But nobody–not even the most casual observer–believes that these institutions are in any meaningful way impartial or have any function other than to rubber-stamp the policies of the ruling cadre. Internecine battles for power within this ruling cadre, even if influenced by popular protest, are not equivalent to compromise emerging from legislatures embedded in representative governments (contra Bloomberg in Levitz, 2019).

Thus, when international businesses are confronted by competitors backed by sovereign states and the coercive tools they have at their disposal, something more is required. International business executives must make decisions that are intrinsically political in nature and not merely dictated by narrow economic considerations. As such, western executives should think of such foreign competitors as agents of hostile, autocratic regimes, and view their opponents' actions through the lens of nonconventional warfare conducted in a "grey-zone," which is an arena in which the line between economic competition and military conflict is indistinct (Barkin, 2020; Hart & Magsamen, 2019).

In a neo-mercantilist economy, an administrator is tasked with viewing every transaction from the perspective of how the transactions creates an asymmetric advantage in executing on policy goals. A moderately competent leader directing a neo-mercantilist economy will be able to take advantage of free-market transactions that are grounded in the expectation of laissez-faire, because the neo-mercantilist state backs their companies with state subsidies and power. And this is exactly what has occurred.

Recently, it has become an accepted trope to expect that, due to state subsidies for manufacturing in the PRC, products and technologies designed or conceived in the West will, by default, be transferred to China for mass manufacture. On the other hand, innovation originating in the PRC is very rarely implemented in the United States or elsewhere; the movement of valuable intellectual property from the PRC to the U.S. is forbidden by state policy. Until recently, the Committee on Foreign Investment in the United States (CFIUS) was extremely restrained in slowing down or stopping deals that would move civilian and dual-use technology offshore (Ferek, 2020). In fact, during the era of unbridled economic globalization, anything that was advantageous in a narrow economic sense to American business was generally allowed.

As an autocratic regime implements neo-mercantilist policies, it can change its policies, laws and regulations very quickly in order to asymmetrically exploit the laws of its adversaries, because policy is set top-down. Meanwhile, it can engage in long-term strategic planning—5- and 10- and 20-year plans—while adjusting tactics quite quickly, from the top down. This is time-efficient, but it creates the opportunity to commit economic mistakes quickly and relies upon the regime being able to collect honest information—always a challenge in autocratic regimes (Hayek, 1991). The disastrous decisions made centrally by authoritarian regimes have frequently resulted in extreme outcomes including genocide, either intentionally as a result of economic policies or as an unintended byproduct of the same (Somin, 2016; Applebaum, 2017).

As a new cold war intensifies with the PRC (Kaplan 2019) and states fall into its sphere of influence through either the Belt and Road or String of Pearls initiatives or as a direct result of the exercise of military power, corporate leaders need to ask themselves the question "What is to be done?

GRAND STRATEGY IMPLEMENTED

If western regimes are to continue to compete successfully with authoritarian states, it will be necessary to reestablish the western plateau. The asymmetries and diodes constructed by regimes operating through neo-mercantilism suggests why disengagement is fundamentally the best option for polities resting on laissez-faire economies. Otherwise, corporations in a freer marketplace will be exposed to the sharp power of autocratic states that use access to their domestic market to lure innovation and new ideas away while engaging in predatory practices. Therefore, to the extent corporations of the western powers engage in commerce with those aligned with autocratic regimes, western companies and governments must consider such actions from a long run perspective.[27] Engagement-by-default simply does not work with autocratic regimes, because the relevant governments are constantly acting to create asymmetry through non-economic means. To the extent that western governments continue to permit multinational corporations to engage with authoritarian regimes, it is necessary that these corporations begin to practice grand strategy and integrate it as a framework for all major decisions (Mimes, 2020).

The best way to integrate grand strategy in the executive suite is to establish a CXO-level role devoted to this effort. Given the fact that neo-mercantilist states (and their corporate cat's paws) are engaged in an asymmetric effort to destroy the competitiveness of western corporations, such an office must recruit specialists from a wide range of disciplines and backgrounds in order to understand, evaluate and blunt the various tactical, strategic and grand strategic threats multinational corporations now face. At the very least, experts drawn from political science, anthropology, geography, and history, lawyers and lobbyists, and the intelligence and military services must be recruited to supplement the expertise of economists. An understanding of culture and values—both those of the corporations and those of the places from where they operate—is crucial. A deep technical understanding by the Grand Strategy Officer (GSO) of the core technology and competitive dynamics of the corporation and the relevant markets is, of course, a necessity.

A GSO should be responsible for formulating and implementing the company's grand strategy and integrating competitive tactics and corporate strategy with the grand strategy. The grand strategy needs to take into account a four-fold characterization of those states within which business is conducted. Allied states share the values and strategic interests of the western powers. Client states share strategic interests with the western allies, but do not necessarily have free markets, individual liberty, the rule of law, and limited government. Competing states adhere to western values but have a divergent sense of their strategic interests. The most dangerous are adversary states because they neither share our values nor our strategic interests.

No such characterization should be regarded as anything other than a provisional first approximation, with the characterization of a given state changing over time. For instance, after the Nixon and Kissinger opening, China and the United States shared a common strategic interest in containing the USSR though their economic and political values fundamentally diverged. Later, under Paramount Leader Deng Xiaoping, the Chinese economy underwent an apparent market reform and their leadership promised political liberalization. Westerners believed that Chinese leaders were aligning values with strategic interests. Nevertheless, with the rapid growth of the Chinese economy and since the accession of Xi Jinping, China has emerged as an adversary, seeking hegemony in the maritime domain and Eurasian influence through its Belt and Road project. In reaching any such preliminary assessment, an evaluation of both interests (as appreciated through policy) and values (as realized through its institutions, such as the courts) must take place. This assessment provides the critical understanding of the environment neo-mercantilist states establish and in which their sponsored corporations operate. Special care needs to be exercised for engagement or competition with adversary regimes and their agents. Thus, the overarching goal is for the GSO to evaluate and mitigate geopolitical risk.[28]

The specific functions pertaining to the task of formulating and implementing grand strategy of this office should include:

> First, evaluate corporate decisions through the lens of values and culture and through the understanding that some governments are allies, others are clients or competitors, yet others are neo-mercantilist adversaries and realize that these relationships can change over time.
>
> Second, explicitly identify the human-rights and civil-liberties values of the GSO's corporation and ensure that all the tactics and strategies of the corporation are in line with these values.
>
> Third, evaluate the alignment of corporate values with local values and power structures in foreign locations where investment, production, sale and transport of products takes place.
>
> Fourth, assess how well the above policies and actions align with those of the governments in which production takes place.

Fifth, identify what engagements with autocratic regimes are in the long-term interest of the company and which ones provide only a short-term benefit, particularly in light of their historical behaviors, business practices and culture, and likely future policies of these regimes.

Sixth, identify how the corporate leadership can successfully communicate these tradeoffs to investors and enable them to understand that short-term gains from engaging with autocratic regimes are often not worth the long-term downsides (Bolten, 2020).

Seventh, develop and maintain as full a picture as possible of the company supply chain, reaching as far back toward raw commodity inputs as is feasible, and of the demand/customer chain, reaching all the way to end users. Identify critical weaknesses, chokepoints (geographic, entity-based, or national), and closely monitor the key nodes in the supply and demand networks for emerging political or other risks.[29] These include, for example: social and labor unrest; currency fluctuations and manipulations; incidence of terrorist attacks; incidence of coercion of corporate executives; the prospect of revolution or war; the possibility of import/export restrictions, expropriation, I.P. theft, new tariffs, or coerced repatriation of profits (Munoz, 2013). In short, the Office of Grand Strategy must identify and mitigate risk associated with policy and regime instability.

Eighth, prevent political events critical to a multinational corporation from emerging as a surprise and ensure that contingency plans are in place and ready to implement on short notice where needed. In practice, this means developing redundant sources of supply or alternate transport routes in order to maintain stable supply chains. Why? Because as the new Cold War between the United States and China intensifies, supply chains will be subjected to increased political risk.[30]

Ninth, have all political lobbyists—here in the United States and overseas—report changes in ruling coalitions, policy and regulatory changes, and social unrest to the GSO. In the West, lobbyists secure enhanced freedom of operation by favorably influencing the legislative and regulatory climate for their clients. Overseas, lobbyists representing Western clients should also be tasked with acting as diplomats, and they may also engage in securing information on emerging threats posed governments and stakeholders (Henisz, 2014; Mullins & Scannell, 2006). Tenth, produce policies that are simple and comprehensible. They should be distributed across the entire organization, to ensure that the grand strategy of the organization is well-understood by all employees and executives. The GSO should ensure that the employees of the company understand the need to pass on actionable information and process this data into actionable recommendations.

Given the rise of states that are sufficiently powerful to challenge the United States, and which treat western corporations as adversaries, the GSO absolutely requires CXO-level visibility and direct access to the CEO. Anywhere the corporation is engaging with an autocratic, neo-mercantilist regime or with their agents, citizens, or the corporate entities they control—either as investors, partners, customers, end users, or suppliers–it will be the function of this office to provide a comprehensive picture of the relevant short- and long-term risks, and to identify ways of mitigating these risks.

Simple compliance with laws, even when those laws are explicitly aimed at enforcing various forms of disengagement, is not sufficient. Corporate counsel can identify legal risk, but how is this useful when a company has put itself into a position where it is profoundly dependent on a regime where rule of law is absent and where there is no meaningful separation of the competing corporations from a neo-mercantilist regime?

The GSO will be responsible for getting ahead of the economic risks arising from political threats. Furthermore, when a dependency on an autocratic state is identified as critical to the business, the GSO will be responsible for working with allied governments to create an alternative source of supply or encourage the development of an alternative customer base to reduce this dependency. In extreme cases, the GSO will be responsible for lobbying allied governments for subsidies in order to break dependency on adversarial regimes.

CONCLUSION

A thin overlay of trite geopolitical wisdom on top of a fundamentally flat-world view is simply no longer sufficient. Western companies and CXO's have finally figured out, for instance, that authoritarian regimes will act to steal their I.P. using hacking, bribery, espionage and outright theft. But, deciding not to develop I.P. in the PRC or Iran or Russia is a point solution to only one part of a much larger set of problems.

There are companies that have thought in terms of geopolitical risk for many years. For instance, in the mining and oil industries, which deal routinely with the possibility of government expropriation of assets (Bremmer, 2005), this is a well-understood danger. Such companies have been known to go so far as to employ private military contractors to ensure that their assets remain unthreatened by local warlords, who, in the presence of failed regimes, are likely to engage in predatory behavior.[31]

Today, the threat environment has changed and so must the response. Nearly every western company has some form of interaction with autocratic or neo-mercantilist states – either in the supply chain, or in their customer chain, or in the form of state-sponsored competitors. The creation of national champion companies in the West is under serious consideration in multiple industries (Maritime Executive, 2020).[32] So, too, the need for a grand strategy embedded in a GSO is now pervasive.

Profit and loss, risk and reward – these remain the fundamental rhetoric of western business decisions. What separates the neo-mercantilist states from the liberal democratic ones is not the existence of companies that seek to generate profit and minimize risk. Both systems have such entities. By locating business activities in countries that share fundamental commitments to human rights, the operation of a more limited government, and an independent court system, western corporate executives reduce the political risks associated with exposure to the arbitrary actions and institutions of autocratic and neo-mercantilist regimes.

Identifying regimes with shared values is the first step toward the mitigation of political risk; developing an appreciation of why and how states operate as geopolitical adversaries in their quest for power is also required. This requires a careful monitoring of a multifaceted environment in which multinational corporations operate, and that monitoring must include ongoing predictions on how political risks impinge on the resilience and robustness of supply and customer chains. Tracking these risks and identifying the right engagements with both friendly and adversarial governments is the role of the GSO. Companies that begin to think in terms of grand strategy will be equipped to deal effectively with adversarial governments, and as a result, will be in a position to preserve and enhance shareholder value through these interactions. Those that fail to do so will find themselves at the mercy of authoritarian regimes and will find themselves on the losing end of transactions that destroy shareholder value in a spectacular fashion.

As long as western-based multinationals are going to continue to engage with autocratic, neo-mercantilist regimes and their corporate agents, western corporate executives will need someone sitting at the table for every major decision whose job is to evaluate those decisions first and foremost through the lens of values, interests and an awareness of geopolitics. Just because the law allows something to occur, and it makes financial sense on a foreshortened timescale to go forward, it doesn't mean that it is actually a good idea for a corporation, or its shareholders, or the community to which a corporation is tethered by law, sentiment and personal loyalty. If the leaders of western-based international corporations continue to focus on quarterly returns and to accept engagements with autocratic regimes as a result of such short-term thinking, western governments will legislate disengagement. Until such time as the western plateau can be reestablished on the basis of shared values and common strategic interests, multinational companies will need to operate successfully in a world of considerable political complexity where they will continue to be treated as adversaries by authoritarian states. Grand strategy provides the tools for navigating in this ambiguous environment.

With the intensification of the New Cold War with the People's Republic of China, western corporate executives will frequently find themselves in the position where a short-term view of their financial interests would lead them to engage with autocratic regimes, because these regimes will dangle financial and regulatory rewards to produce engagement, as the first step in what is now a well-understood trap. But the long-term interests of shareholders, and the continued success of the societies in which western corporations are based, require keeping these regimes at arm's length or more radical disengagement.[33] By looking at these interactions through the lens of values, a refusal to do business with genocidal and authoritarian regimes becomes an unambiguous ethical conclusion. Increasingly, it has become clear that this conclusion also is the right one for avoiding political risk and building shareholder value.

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Footnotes

[1] According to Cline and Henisz (2019), the incidence of political risk increased over the past ten years, dramatically so from 2016 to 2018.

[2] Referred to as a "continental sword" in the geopolitical literature (Kennedy, 1976).

[3] One dissenting analysis, in which the author indicates that uncertainty and war will be limited to places which fail to successfully join what we refer to as the "western plateau" (Barnett, 2004).

[4] For a salient example, see Paulson (2015).

[5] Gilpin (2000, 2001) provides a comprehensive discussion of this process and its implications.

[6] It is now apparent that economic and social change will produce demands for political participation if, and only if there is also an institutional history and cultural tradition of limited government, as was fostered by the British in Hong Kong and temporarily preserved by the CCP's adherence to the "One country, two systems" doctrine.

[7] Weber (1958; 1904-05) and Sombart (2015 & 1913) are the two classic texts on the relationship of religion to the rise of capitalism; and Schluchter (1999) explores the relationship of Islam to modernity. For a discussion of how distinct cultural and religious values may lead to political conflict see Huntington (1996).

[8] For a geopolitical theory of the relationship of regime to geography see Fox (1971).

[9]See Johnson & Berret (2011) for a recent call to address this situation.

[10] Geopolitical risk for supply chains is now a topic of considerable importance (Cox, 2019).

[11] Unilever is apparently an example of a corporation that reaches down the supply chain to ensure sustainable production of raw materials (Unilever's Supply Chain, 2020).

[12] It must be noted that, during the nineteenth century, western governments and companies, such as the East India Company, demanded from China extraterritoriality—typically in the form of treaty ports--for their citizens and employees (Philips & Sharman, 2020).

[13] Dickinson (2019) asserts that "Under the Cybersecurity Law, the Chinese government has the right to obtain from *any* person or entity in China *any* information the Chinese government deems has *any* impact on Chinese security."

[14] As it was practiced 300 years ago, mercantilism was an economic program designed by states to secure the gold bullion necessary to pay armies and their suppliers. Today, neo-mercantilists attempt to enhance the sinews of state power by manipulating the value of currency, creating trade imbalances, and advancing control over key and essential industries. Key industries that unlock the possibility of developing industries that are essential to maintain the civilian standard of living or are critical for obtaining the wealth necessary to maintain the war-fighting capability of the state (Hochberg & Sloan, 2017; Fallows, 1995).

[15] Japan, South Korea, and Taiwan also closed their markets to foreign competition; however, as powers dependent on the good will and military protection of the United States during and after the Cold War, they were essentially granted special, though temporary, economic dispensations in exchange for following U.S. lead in foreign affairs. When PRC decided to challenge the United States geopolitically, its commercial relationship with the United States, which was a simmering issue for many competitors and industrial workers, was brought to a boil in the 2016 presidential election.

[16] According to Cline and McCaffrey (2020), "… about 90% of the executives from companies in the Americas say country-level and geopolitical risk are having a very high or high impact on their company. But only about half of executives from companies in Europe and Asia-Pacific say the same."

[17] These dynamics are not new. In the pre-modern era, western regimes actually chartered many of the original and most successful corporations in order to enlist private capital in service of state ends that the kings could not afford to advance themselves (Phillips & Sharman, 2020; 2011).

[18] Except in the cases of a few pariah states such as North Korea. And even in the case of Iran, for instance, western companies have been allowed, within specific limitations, to engage in trade.

[19] For a discussion of a corporation that managed to implement its own geostrategy, see R. Cohen (2012).

[20] See Rahe (2019b) for further elaboration of this point.

[21] Gray's (2011) most significant work is *The Strategy Bridge: Theory for Practice*.

[22] Significantly, Freedman (2013) divides his study into three domains of strategic thought: inter-state relations, revolutions, and business management. This tripartite division neglects the relationship of business to the coercive power of states.

[23] Historical case studies on the formation and implementation of classical grand strategy include: Luttwak (1976, 2011, 2012), Mitchell (2019), Paine (2017), Green (2017), Parker (1998), Rahe (2015, 2016, 2019a), Murray, Sinnreich, & Lacey (2011).

[24] Cline & McCaffrey (2020, p.3), identify four sources of political risk, some of which are derived from the scale from which the risk emanates (such as global versus a state), others are institutional (risks emerging from changes in administrative regulatory activity independent of scale or from non-governmental organizations in civil society).

[25] This list of the potential domains in which war may be carried out is partially drawn from recently translated documents attributed to the People's Liberation Army of China (Liang & Xiangsui, nd, 1999, p. 123.)

[26] Recently the CPP has extended its control over all companies (Long & Lee, 2020).

[27] See Atkinson (2000) for a compelling case study.

[28] The GSO should also be responsible for government relationships with western democracies. Competitors oftentimes seek regulatory advantages that create political risk in such environments. Similarly, there are democracies, such as Singapore, Israel, South Korea and Japan, which may be characterized as both exhibiting social and/or religious solidarity and a tightly knit socio-economic elite. Those social relationships may also be the source of political risk.

[29] George Friedman and Leonard Hochberg (1994) made these points early on with regard to how geographic information systems and supply chain analysis might enhance an understanding of political risk.

[30] For recommendations on how to end dependency on China, see Rodgers, Foxhall, Henderson, & Armstrong (2020).

[31] Frye (2005) explores the legality of mercenaries employed by corporations.

[32] As another example, Intel and Boeing function informally as national champions in the United States, though without explicit government backing.

[33] Chinese officials and economists have called for long-term planning for "… when China is blocked from dollar settlements, or Washington freezes or confiscates a portion of China's huge U.S. debt holdings" (Shen, Zhou & Yao, 2020). Furthermore, U.S. corporations may soon find that China has implemented a blacklist designed to retaliate against American technology firms (Wei, 2020). Western multinational corporations must anticipate and prepare for such eventualities.