

# Governance in the Age of Fragmentation

BY MICHAEL MAYER, Hakluyt & Company

**A new era of fragmentation is upon us. Geopolitical competition, economic protectionism, and the polarisation of domestic politics across the world are eroding the assumptions on which global business has operated. This shift is a deep, structural change, not a temporary dislocation, and calls for an urgent rethink of corporate governance.**

In *The End of History and the Last Man*, political scientist Francis Fukuyama suggested that the late 20th century marked a turning point. Liberal democracy, open markets and a consumerist culture were heralded by ex-communist Europe integrating with the West, Cold War autocracies fading, and military juntas losing legitimacy.

That chapter of history is being rewritten. There is no longer a sense that countries are heading

towards the same destination, nor that values and international institutions are converging on a shared vision.

Instead, the world is fragmenting. It has become more unpredictable, more dangerous, even perilous. Illiberal, authoritarian states, including China and Russia, are challenging the notion that there is one path to development or global leadership, and are becoming more assertive. The US, chief patron of the post-1945 world



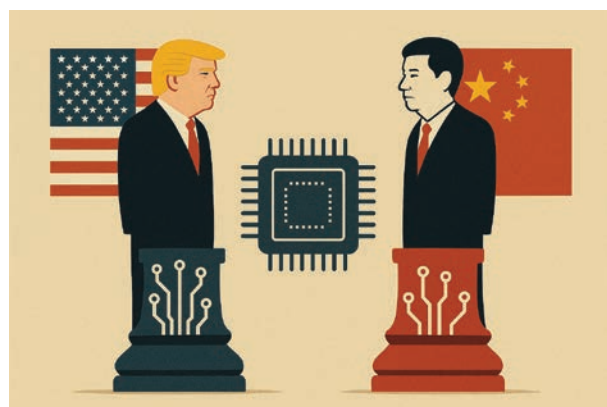
order, appears now to be retreating from those principles.

### **A structural shift, not a temporary dislocation**

This is more than mere turbulence. The likelihood of a swift return to the trajectory described by Fukuyama is remote. The post-war era of deepening global integration is over. Trust in multilateralism is breaking down. Alliances have become more transactional, coalitions more ad hoc, and global institutions less empowered.

For business leaders, this matters. The familiar operating assumption that politics is background noise and economics of greater importance no longer holds. Politics has moved firmly into the foreground.

The fragmentation is occurring across three interlocking spheres: political (and geopolitical), economic and societal. Each of these spheres interacts with the others.



### **Political: Competition between the US and China**

The central geopolitical contest is between the US and China. It is a competition over trade, technology, economic and development models and political ideology. Export controls, investment screening and technological alliances are becoming instruments of statecraft, not merely policy footnotes.

At the same time, regional powers such as India, Indonesia, Turkey and Saudi Arabia are becoming

more assertive. Japan and South Korea are deepening their security cooperation even as their economies remain closely entwined with those of China. Australia is struggling to chart a course based on Western ideals underpinned by the US security umbrella, while its economy remains dependent on Chinese demand. The effect is a thicket of overlapping, sometimes contradictory commitments and policies.

The implications for boards are uncomfortable. The balance of risk has shifted from the familiar categories of market forces and credit to politics, regulation and relationships. Licences, data access, landing rights for products, and the legal ability to ship a chip or an algorithm can turn on decisions made in state capitals.

As a result, boards will need to assess routinely which areas of their portfolio are vulnerable to changes in regulatory regimes, extraterritorial enforcement, and cross-border conflicts.

### **Economic: A protectionist turn**

After decades of globalisation, during which trade barriers have been dismantled, a shift toward economic protectionism is underway. Government policies for growth are being influenced increasingly by national security and political objectives. Local content rules, critical minerals strategies and sovereignty requirements over data and intellectual property (IP) are proliferating.

Supply chains are being reconfigured, from “just in time” to “just in case” – and increasingly to “just in allied places”. The result is a shift towards multisourcing, inventory buffers and production footprints across allied or neutral jurisdictions. Some sectors, including semiconductors, batteries, defence and adjacent technologies, and pharmaceuticals, are being subjected to tighter export controls; other areas are likely to be affected.

Capital allocation decisions will increasingly be determined by such forces rather than by, for example, seeking the lowest cost of production.

Global standard-setting is fragmenting, too. Privacy regimes are diverging, AI safety rules are proliferating, and emissions standards are dislocating.

Pricing commercial risk and trade-offs in this environment is a challenging task. Lowest unit cost is no longer a guiding star. The value of resilience has increased, but it is hard to price.

Boards, therefore, will need to assess and monitor continually which inputs are vulnerable to single-point-of-failure risks and consider viable, economic alternatives. Directors will need to consider whether data management and cloud storage solutions comply with the strictest regime in markets where their companies operate. They will need to weigh the costs of holding more stock, or investing in less efficient production, against the benefits of geopolitical and regulatory resilience.

### **Society: Domestic politics is being reshaped**

Fragmentation is also occurring within states. Growing inequality and distrust in politicians and institutions are combining to reshape domestic politics in Western democracies. Policy swings are becoming more extreme, and enforcement of regulation is more uneven.

Democratic governments are increasingly under pressure from voters who feel dissatisfied, disenfranchised and distrustful. Populist politicians are capitalising on this. The proliferation and instantaneity of social media make it harder for companies to avoid being pulled into and having to deal with contentious cultural issues.

In Asia, wealth disparity, uneven opportunities and social media-enabled mobilisation can amplify political and economic discontent, heightening the risk of social unrest.

In this climate, businesses cannot leave decisions on how to respond to their marketing teams.

A company's national, regional and global leadership will need to be both involved and aligned.

Boards will need to assess more dynamically potential scenarios that could trigger a consumer or employee backlash in key markets – and how, including at what pace, to respond. They will also need to think more deeply and longer term about whether their companies have coherent positions on contentious issues, or forge a disciplined framework for staying clear of them.

In addition, companies should undertake robust reviews of duty of care obligations for employees working in politically sensitive locations. This involves establishing crisis-response procedures and processes.



### **Making sense of it all**

America, Europe and Asia are on different geopolitical trajectories. Together, the disruptive forces caused by geopolitical tensions, economic realignment and social change are giving rise to new patterns of international rivalry and cooperation. This is shaping the next phase of global fragmentation. The prospect of such change demands that boards consider adopting new operating models.

The question to ask is not “*When will things return to normal?*” but “*What does good business governance look like in this new, uncertain world?*” (See box, “Boards Need to Retool Governance”).

In the US, “America First” is, in effect, a call to prioritise near-term profits over ideology, institutions

## Boards Need to Retool Governance

What, then, should company directors do? The answer is to retool governance for a world where politics drives economics. That requires changes in structure, process, and mindset.



- **Make geopolitics a fiduciary duty.** Elevate it from an occasional agenda item to a board-owned discipline. Establish clear accountability – a committee or designated director – with access to independent expertise and well-sourced and relevant insight. Tie geopolitical risk to strategy, capital allocation and remuneration.
- **Prioritise government engagement as a core competency.** Businesses need to take government engagement seriously. It must be valued as a core capability and staffed effectively to enable high-level discussions with decision-makers, as politicians – and policymakers – will increasingly determine market opportunities.
- **Maintain a living map of exposure.** Replace static risk registers with dynamic heatmaps that track the broad spectrum of a firm's risk exposure. Link them to triggers and established action plans: for example, what regulatory change, port closure, or sanctions notice forces a response, and what should that response be?
- **Harden the portfolio.** Prioritise resilience as a design principle. This may mean dual sourcing critical inputs, diversifying production and supply chains, or carrying more working capital. Justifying and balancing this against the costs will be a key challenge, but boards should accept that some redundancy is worth the added cost.
- **Localise intelligently.** Where standards diverge, localisation should be the first principle, not an afterthought. Consider “sovereign by design” architectures for data centres and cloud solutions. Use partnerships to aid regulatory navigation. Localise branding and responses to contentious issues where viable, while balancing this with firm-wide consistency. Local advisory boards, too, will have a role to play.
- **Stress test the portfolio.** Model sanctions, technology disruption, geopolitical or domestic conflict, and currency dislocations. Include extra buffers and prioritise optionality.
- **Prepare the people platform.** Revisit duty of care policies for staff in sensitive markets. Create practical, workable options for when you need to shift resources, whether in response to internal conflict or changes in visa regimes. Train local teams to manage value-based conflicts and controversies coherently across jurisdictions, to avoid becoming involved in cultural flash points.
- **Rehearse the narrative.** Pre-plan decision trees and statements for foreseeable flashpoints. Identify and confirm the chain of command. Decide when you should speak, when not to, and how to align internal and external communications.

and alliances. As a result, the US is retreating inward. The imposition of trade tariffs, the chosen economic weapon of US President Donald Trump, is intended to reshore supply chains while export controls keep key technologies and IP closely held, only to be shared with allies or traded for concessions.

While domestic US politics has become polarised, internationally, the contest is with Beijing. Technology is the high ground: advanced chips, cloud services, industrial software and the standards that govern them.

Expect more “de-risking” rhetoric in the West, more “dual circulation” in China, and a steady broadening of the sectors under export control regimes. For businesses that straddle the US-China divide, this is not an argument for exiting China – often an impossible feat – but for optionality. The prudent course of action is to develop credible alternatives while preserving access and accepting that regulations can change faster than factories can be built.

In Europe, Trump’s tariffs, Chinese overcapacity and competitiveness in key industries (such as autos and renewable energy) and Russian aggression have forced the bloc into confronting tough realities. Innovation has lagged, energy policy has rested on awkward dependencies outside the bloc (namely, Russian gas), and the ascent of populism at a national level threatens to erode pan-European institutions.

Brussels, in response, is taking a pragmatic approach. Under the banner of “strategic autonomy”, it is pushing public-private partnerships in critical sectors such as defence, artificial intelligence and energy. The European bloc is reassessing how to clear mergers that were previously deemed anti-competitive. And it is beginning to roll back its own regulations, for example, on climate change, to ease pressure on companies. All of this could create opportunities for business.

### **What does it mean for businesses in Asia?**

In Asia, China has been and will continue to be the biggest strategic challenge for many businesses.

Having “de-risked” their China operations over recent years, either through divestments or restructuring, shifting geopolitics is pushing many of the region’s companies to consider re-entry. Regulations, however, have not become friendlier, while competition has become fiercer.

Across the region, China presents tough choices for politicians and business leaders alike. How can companies compete with an influx of cheap Chinese goods seeking alternative markets? How should businesses approach Chinese companies seeking access to banned chips in their regional data centres? How can countries protect their domestic champions while avoiding blowback from Beijing?

India is a beneficiary of these dynamics. It is a huge market, has an expanding manufacturing base, and a willingness to display strategic, geopolitical autonomy. But bureaucratic complexity, regulatory uncertainty and infrastructure shortcomings persist. For the foreseeable future, local partnerships will remain essential in most industries. Choosing the right partners and knowing how to make partnerships work will be critical.

Southeast Asia has long advanced a policy of non-alignment, but the space for ambiguity is narrowing. ASEAN nations are increasingly faced with choices regarding security and technology alliances, supply chain alignment, and investment rules. In Northeast Asia, meanwhile, Japan and South Korea are strengthening security ties with the US even as they manage economic exposure to China. Conflict over Taiwan remains a possible flashpoint, with the potential to disrupt global technology and trade.

The implication for boards operating in or from Asia is clear: corporate strategy should be regional by design, not global by default. Businesses should treat Asia as a portfolio of distinct jurisdictions, technologies and political regimes – and not as a single market. ●