

Navigating global uncertainty using scenario analysis

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Global uncertainty, driven by shifting geopolitical dynamics and trade disruptions, requires strategic foresight from businesses to ensure resilience and adaptability. This article explores the use of scenario analysis as a method to navigate such uncertainties effectively.

Global business leaders face unprecedented uncertainty as geopolitics and trade relations shift dramatically. Since 2017, U.S. tariffs on Chinese imports have surged to as high as 145%, significantly disrupting bilateral trade. Concurrently, global trade interventions have escalated sharply, with industrial policy interventions rising from fewer than 70 in 2010 to over 1 500 by 2022^[1]. Long-stable assumptions about open markets are eroding – as one analysis noted, events like Brexit, the US – China trade war, and China’s inward turn signified the end of an era of uncritical globalization. In response, policymakers are redefining trade relationships. This volatile environment spans all industries, demanding that companies move beyond linear forecasts. They need scenario analysis – a strategic planning tool to systematically explore what-if futures – to navigate the increasing geopolitical tensions now seen as the top risk to growth.

The shifting global landscape: geopolitical and trade dynamics

Geopolitical realignments among major economic and military superpowers are introducing fundamental uncertainties in the global business landscape. Major trends in reshaping global trade and geopolitical relationships include:

- **Great-power competition and decoupling:** Increasing rivalry, particularly between the United States and China, is significantly reshaping global trade and technology flows. The United States has imposed sweeping tariffs, including a 145% levy on Chinese imports, under the "Liberation Day" tariffs initiative. This move aims to address perceived trade imbalances but has led to a sharp decline in bilateral trade, with projections indicating an 81% drop in merchandise trade between the two

nations this year^[2]. China has responded with its own set of tariffs and is actively seeking to strengthen economic ties with other regions, particularly the European Union, to mitigate the impact. Meanwhile, the European Union finds itself navigating a complex landscape, balancing its economic relationships with both the US and China. While the EU has expressed concerns over potential market flooding due to diverted Chinese exports, it has also resisted US pressure to reduce trade ties with China. Efforts are underway to manage trade imbalances and maintain open channels with both partners. This trend could lead to fragmented technology standards and disrupted supply chains worldwide. As a result, the globalization of emerging technologies – such as AI and quantum computing – could be significantly slowed

- **Resurgence of economic nationalism:** Globally, economic nationalism and protectionism are becoming more prevalent. Nations are increasingly employing tariffs, investment screening, and targeted sanctions as policy tools. The World Bank recently recorded thousands of new trade-restrictive measures, affecting companies across all sectors by introducing barriers that disrupt previously seamless global operations
- **Forming of new regional trade blocs:** In response to global trade uncertainties, countries are increasingly forming regional alliances. The India-Middle East-Europe Economic Corridor (IMEC) is a notable example, aiming to enhance connectivity and trade between these regions, offering an alternative to traditional routes and reducing dependency on any single economic power
- **Regulatory volatility and policy uncertainty:** The current geopolitical climate has led to unpredictable regulatory changes, including sudden imposition of tariffs and trade restrictions. Such volatility poses challenges for multinational companies, which must adapt swiftly to shifting policies and reassess their global strategies accordingly

These dynamics underscore why traditional planning is insufficient. The range of plausible outcomes has widened – from a fragmented world of protectionism to a revived (if reformed) globalization. Organizations must be prepared for divergent trajectories. In this context, scenario analysis provides a structured way to anticipate and prepare for multiple futures, rather than betting the strategy on a single forecast.

Leveraging deductive scenario analysis to capture big picture and details

In a world influenced by uncertainty, scenario planning has re-emerged as an essential tool for executive decision-making. Unlike conventional forecasts or single-point projections, scenario analysis asks “What if...?” and helps business leaders envision a range of plausible futures – especially futures shaped by complex, interacting geopolitical forces.

While inductive scenarios emerge from exploration of drivers, deductive scenarios choose two of those drivers to structure scenario worlds. Deductive scenarios are derived from a framework that organizes the highest and most influential uncertainties or questions about the future into a logical form. First the framework is established, then scenarios are deducted from the framework. In practice this means that the deductive scenario method builds by identifying the two factors considered the most influential for the topic of concern. These uncertainty factors are given extreme outlooks in the quadrants along the x and y axis of the matrix. This automatically generates four divergent scenarios in the four quadrants of the matrix (see Figure 1). Next the outcomes for the remaining uncertainty factors not chosen in

the axes are inserted intuitively based on their interactions with the ends of the scenario axes.

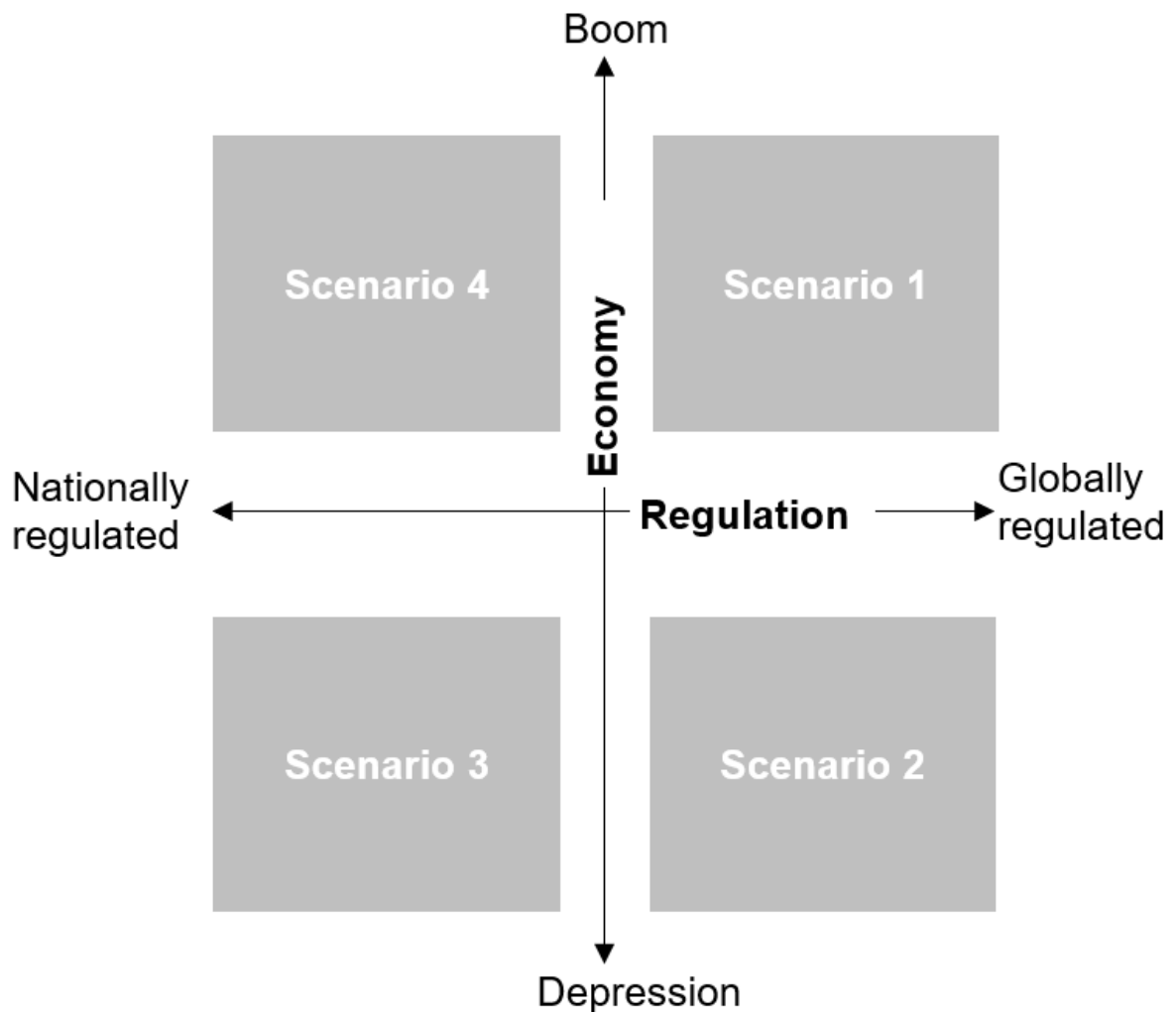


Figure 1. Deductive scenario matrix

Successful scenario analysis follows a structured approach to ensure the process is rigorous yet creative. Typically, it follows five steps:

- **Define focus and baseline:** Clearly determine the focal issue, scope, and time frame for your scenarios. Identify a focal area or issue – such as a decision or question that is critical to the future of your company now. Useful focal issues often emerge from major changes of today. Choose a horizon year as the distance into the future that the scenarios will be extended to capture the uncertainties of interest. Typically, it can be 5 to 10 years
- **Identify key drivers and uncertainties:** Brainstorm the major forces that will influence your business in that timeframe. These often include political, economic, social, technological, environmental, and legal factors. In the geopolitics context, examples might be trade policy shifts, security alliances, technological breakthroughs or bans, changes in consumer sentiment, and regulatory trends. Among these drivers, pinpoint the critical uncertainties, which are factors that are both highly impactful and highly uncertain in how they may play out. Common uncertainties today include: Will China's economy open further or turn inward? Will the US and EU coordinate on China strategy or diverge? How quickly will climate/green regulations alter trade

patterns? Describing the current state of the forces of change helps to consider the emerging threats and opportunities

- **Construct scenario framework:** From the universe of uncertainties, select the two most pivotal uncertainties to form the axes of a scenario matrix. The chosen uncertainties typically have the biggest uncertainties. This yields four scenario quadrants reflecting different combinations of how those two uncertainties could resolve. Give each scenario a memorable name and rough storyline. For example, if one axis is “Level of Global Cooperation (High vs. Low)” and another is “Tech Ecosystems (Integrated vs. Fractured),” you might sketch scenarios like “Tech Iron Curtain” (Low cooperation, Fractured tech) versus “Open Innovation” (High cooperation, Integrated tech).
- **Developing scenario narratives:** Flesh out each scenario into a cohesive mini story of the future. Describe the world in that scenario: What do China-US relations look like? What is the state of global trade and capital flow? Which industries thrive and which falter? Aim for plausibility over extreme detail – the narrative should be internally consistent and challenge your organization’s thinking. For example, a “Cold War II” scenario might include descriptions of two competing economic blocs, duplicated supply chains, restricted technology sharing, and militarization of trade. In contrast, a “Renewed Globalization” scenario might envision moderate political tensions, ongoing trade and investment flows, and collaborative regulation on tech and climate. Crafting rich narratives helps stakeholders emotionally engage with each future and envision how their own operations would fit. Identify a set of indicators that, if observed, would suggest the world is trending towards that scenario
- **Assess implications and strategic options:** Finally, analyze each scenario’s impact on your business and devise appropriate responses. Conduct a sort of stress test: under Scenario A, what strategic moves would we pursue? Which of our current initiatives still succeeds, and which falters? Evaluate things like market presence, supply chain structure, pricing power, talent strategy, and risk exposure in that future. This step often reveals “no-regrets” actions – moves advantageous in multiple scenarios – as well as contingent actions that you would only take if a particular scenario looms. For example, a contingency for a severe decoupling scenario might be “if tariffs X and Y kick in, regionalize production and exit certain markets.” By comparing across scenarios, you can also identify robust strategies that perform reasonably well in all of them, forming the core of your long-term plan

This disciplined process should be both analytical and creative. It’s important to involve a diverse mix of functional leaders in scenario workshops – spanning strategy, finance, operations, and risk – to capture different perspectives. Iterate on scenarios as needed; scenario planning is not a one-off exercise but a mindset of continually scanning and updating your strategic assumptions. As the future unfolds, new uncertainties may emerge or known ones may be resolved, prompting a refresh of scenarios.

To ground these in reality, consider four plausible high-level scenarios for global geopolitics in 2035. Each scenario carries distinct implications for companies (Figure 2).

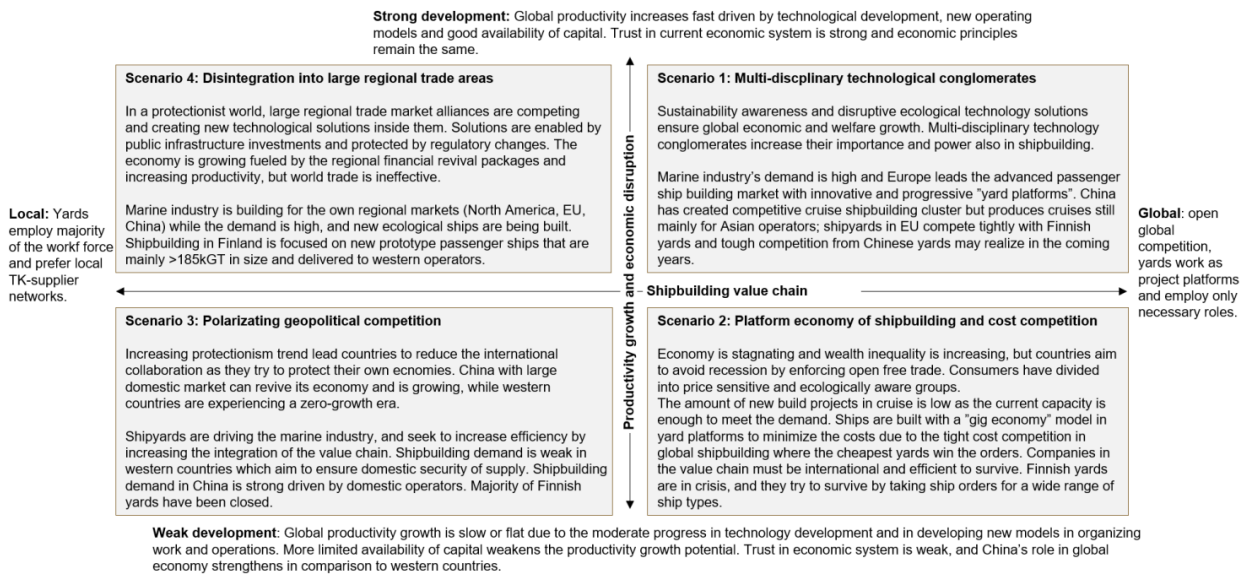


Figure 2. Global business environment scenarios in 2035

Scenarios are a tool for strategic decision making as scenario work combines foresight and strategy

A scenario analysis is only as valuable as the actions it inspires. Once plausible futures are mapped out, leadership should integrate those insights into decision-making and planning processes:

- **Test and refine strategy:** Use scenarios to stress-test your current strategy and planned initiatives. This exercise often uncovers hidden risks. For example, a heavy reliance on a single manufacturing hub might be acceptable in a "Globalization continues" scenario but a liability in a "fragmented world" scenario – suggesting a need for backup suppliers or regional diversification now. Through such testing, executives can refine strategies to be robust across multiple futures. It's crucial to remember that, despite the scenario matrix's intrinsic tendency towards binary, its purpose is to indicate the direction of present dynamics rather than provide a conclusive solution to the future
- **Identify "no regrets" moves:** Look for strategic moves that make sense in almost all scenarios and implement them immediately. These no-regrets moves are typically investments in resilience, flexibility, or insight. They might include strengthening cybersecurity, building extra inventory of critical parts, broadening the partner ecosystem, or investing in market intelligence for weak signals. Because these actions yield benefits under any future, they are prudent bets
- **Develop contingency plans:** For more extreme or specific scenarios, ensure that playbooks are in place. If one scenario entails, say, a regulatory crackdown on a certain technology or a complete cutoff of a market, have a contingency plan ready
- **Embed foresight into governance:** The goal is to make scenario thinking an ongoing part of how the company is run. Consider establishing a periodic scenario review as part of annual strategic planning – updating scenarios with the latest developments and tracking the indicators identified. Building this into the culture – where teams are encouraged to discuss long-term what-ifs and early warning signals – ensures the organization stays agile. Over time, this fosters a corporate mindset that doesn't merely react to change but anticipates it

Above all, senior leadership must champion scenario analysis as a strategic priority. By treating scenarios as living guides rather than theoretical exercises, organizations can steer a steady course even as global currents shift. The value of this approach is ultimately in the preparation and adaptability it confers, not prediction.

In conclusion, navigating the rising uncertainties of global geopolitics requires foresight, flexibility, and decisive leadership. Scenario analysis equips leaders with a strategic compass for these turbulent times. By rigorously imagining how various forces could reshape the business environment, organizations can chart a course that is resilient under a spectrum of futures. This article has outlined how to construct scenarios step-by-step and translate them into action – from stress-testing strategies to fortifying supply chains and aligning investments with likely trajectories. The underlying message is optimistic: while companies cannot control global trends, they can control how they prepare and respond. Those that institutionalize scenario planning will be poised to not just survive in an uncertain world, but to find opportunities in adversity and emerge ahead of less prepared competitors. In an era when the compass with which we once navigated the world is no longer reliable, forward-looking scenario analysis can help executives recalibrate and steer through even the choppiest waters.

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