

2023 Geostrategic Outlook

How to build a robust strategy
for a volatile world

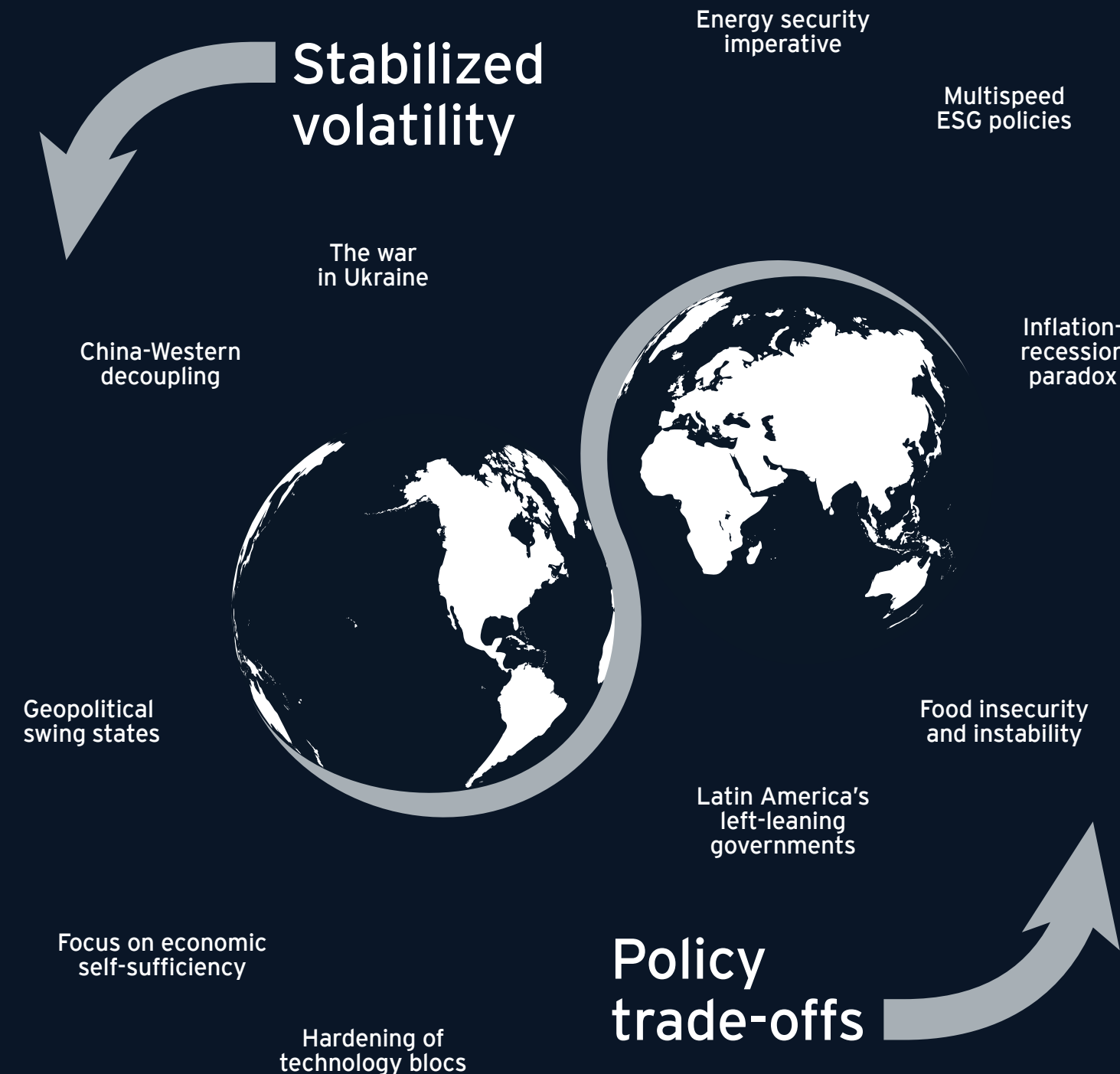
December 2022



Top 10 geopolitical developments in 2023

For 2023, the top 10 geopolitical developments are divided into two themes.

Click on each development number to read more.



A new geostrategic era

Geopolitics has been increasingly volatile in recent years, with US-China tensions and the rising assertiveness of a variety of middle powers driving a shift from a unipolar to a multipolar world. Rising populism and nationalism have also contributed to a weakening of multilateral institutions as governments have exerted more control over their economies. These trends were accelerated by the COVID-19 pandemic – and then they have been supercharged by the war in Ukraine.

The result is that the era of relatively liberalized global trade amid ever-increasing globalization has ended, at least for now. In its place is a transformed global operating environment in which geopolitical considerations often outweigh purely economic considerations in business decisions. Compounding the challenge of heightened geopolitical volatility, the medium-term outlook for globalization is highly uncertain, as explored in our [world-in-five years scenario analysis](#).

The short-term outlook for the course of 2023 is clearer, however. In the year ahead, the geostrategic environment will be characterized by two overarching themes.

First is the oxymoron of **stabilized volatility**. Many of the recent trends in geopolitical tensions and government intervention in economies are likely to persist, perpetuating volatility but likely at a more consistent level than in 2022. The war in Ukraine; the policy stances of the US, the EU and China; and the actions of key geopolitical swing states will continue to shape the global environment, while governments' pursuit of self-sufficiency and technology decoupling from strategic competitors will likely further constrain globalization.

Second is the prevalence of significant and urgent **policy trade-offs**. The current geostrategic environment is posing a variety of acute challenges for governments – with no easy solutions. Policymakers

will need to make trade-offs when addressing energy security, environmental, social and governance (ESG) goals, inflation, critical resources supplies and food insecurity. Governments in different countries will diverge in their trade-off choices, further complicating the operating environment for international companies.

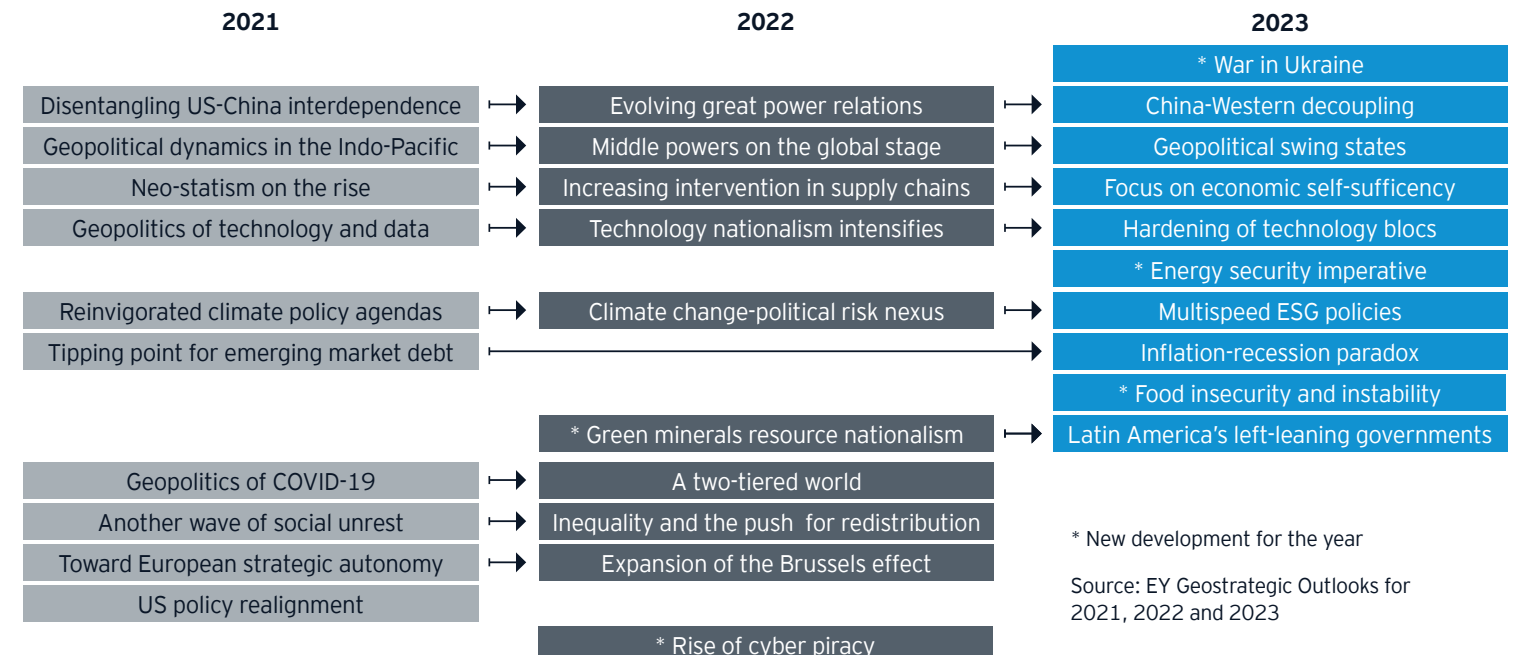
These geostrategic themes are not wholly new in 2023. Rather, they represent a continuation and intensification of some of the political risk trends that shaped the world in 2022. In fact, many of the developments in the 2023 Geostrategic Outlook are evolutions of the developments highlighted in recent years' Geostrategic Outlooks (see Figure 1). That almost all of the [top 10 developments in 2022](#) were accelerated rather than derailed by the significant shock of the war in Ukraine points to the durability of these geopolitical trends.

The top 10 geopolitical developments in 2023 are likely to be disruptive for many markets and companies – but that does not mean they only pose downside risks. There is upside opportunity associated with many of these developments as well, depending on a company's sector, geographic footprint, and the strategic choices that its executives make.

The 2023 Geostrategic Outlook is organized in three sections that answer the following questions:

- ▶ What are the top 10 geopolitical developments that companies will face in the year ahead? [Click here to go to section.](#)
- ▶ What implications do these geopolitical developments have for different sectors? [Click here to go to section.](#)
- ▶ What can executives do to make their strategy robust in the face of these developments? [Click here to go to section.](#)

Figure 1. Many geopolitical developments evolve from year to year, with continued business impacts



* New development for the year

Source: EY Geostrategic Outlooks for 2021, 2022 and 2023

2023 Geostrategic Outlook

Stabilized volatility



1. The war in Ukraine

Theme: Stabilized volatility

The war in Ukraine initiated the most significant shift in geopolitical relations since the end of the Cold War. In 2023, uncertainty around the war and its consequences will remain very high, with significant regional and global political and economic impacts.

Russian President Vladimir Putin is unlikely to de-escalate the war in Ukraine until he can claim some form of victory. At the same time, the Ukrainian army will continue to defend Ukrainian territory – especially if it continues to receive the same levels of financial and materiel support from the US and EU. The risk that this becomes a **war of attrition** will increase the longer it continues.

If the conflict drags on, Putin could come under pressure domestically. As he is unlikely to step down voluntarily, any sort of regime change would likely be disorderly, and could even increase the risk of escalation if hard-liners prevail. The risk of NATO members getting drawn into the conflict could increase if Putin comes under intense pressure and escalates the conflict.

Every significant escalation in the war would likely lead to additional developed-market sanctions on Russia, which would also raise the impact on sanctioning countries' economies. In this scenario, the risk of disagreement between the US and the EU on the speed and nature of sanctions could rise. China, India and others' positioning on the war will also play a key role in shaping the evolution of the geopolitical environment.

Business implications

- ▶ **More sanctions impacting business.** As sanctions continue to be broadened, more sectors, operations, services and products will be impacted. Doing business in Russia or with a Russian entity will become increasingly challenging or even impossible, particularly for companies headquartered in developed markets.
- ▶ **Supply disruptions and higher prices.** As developed markets' diversification away from Russian commodities continues, companies will likely face supply chain disruptions and structurally higher prices. Second-order impacts will continue to flow through the global economy, impacting growth and inflation rates globally.
- ▶ **Geopolitical relationships redefine risks and opportunities.** As global geopolitical relationships evolve, companies operating in strategic sectors and across countries in opposing blocs could see their business environment change rapidly. While for some it may mean difficulty operating in a foreign market, other companies may find new opportunities in their home or "friendly" markets.

Recommended actions

- ▶ Evaluate whether future **sanctions could impact** your business or sector and take action to mitigate their impact.
- ▶ Ensure visibility across global **supply chains** and consider alternative suppliers to improve resilience to shortages or price volatility.
- ▶ Incorporate political risk analysis related to the war in Ukraine into any cross-border investment and **global strategy decisions**.

2. China-Western decoupling

Theme: Stabilized volatility

Relations among the great powers have evolved from a system of overlapping collaboration and cooperation into a more bipolar configuration in which the US and EU economies are disengaging from China and vice versa. In 2023, Washington and Brussels will likely continue to impose new restrictive policies explicitly or implicitly targeted at China. And Beijing will likely continue to shift domestic and foreign policies to become less intertwined with Western value chains. The result is likely to be a steady erosion of economic connectivity.

Amid bipartisan support, Washington is likely to continue to introduce new export controls and investment limitations aimed at reducing the US economy's reliance on China for critical products and limiting China's access to strategic technologies. Implementation of [existing laws](#) will also impose new restrictions on bilateral trade and [investment](#).

The EU and its Member States will likely also continue to impose greater restrictions on investment from China in critical industries. And Brussels is expected to use various policies in its "[trade defense toolbox](#)" – including addressing state subsidies, market access and environmental issues – to create what it views as a more even playing field for European companies vis-à-vis their Chinese competitors.

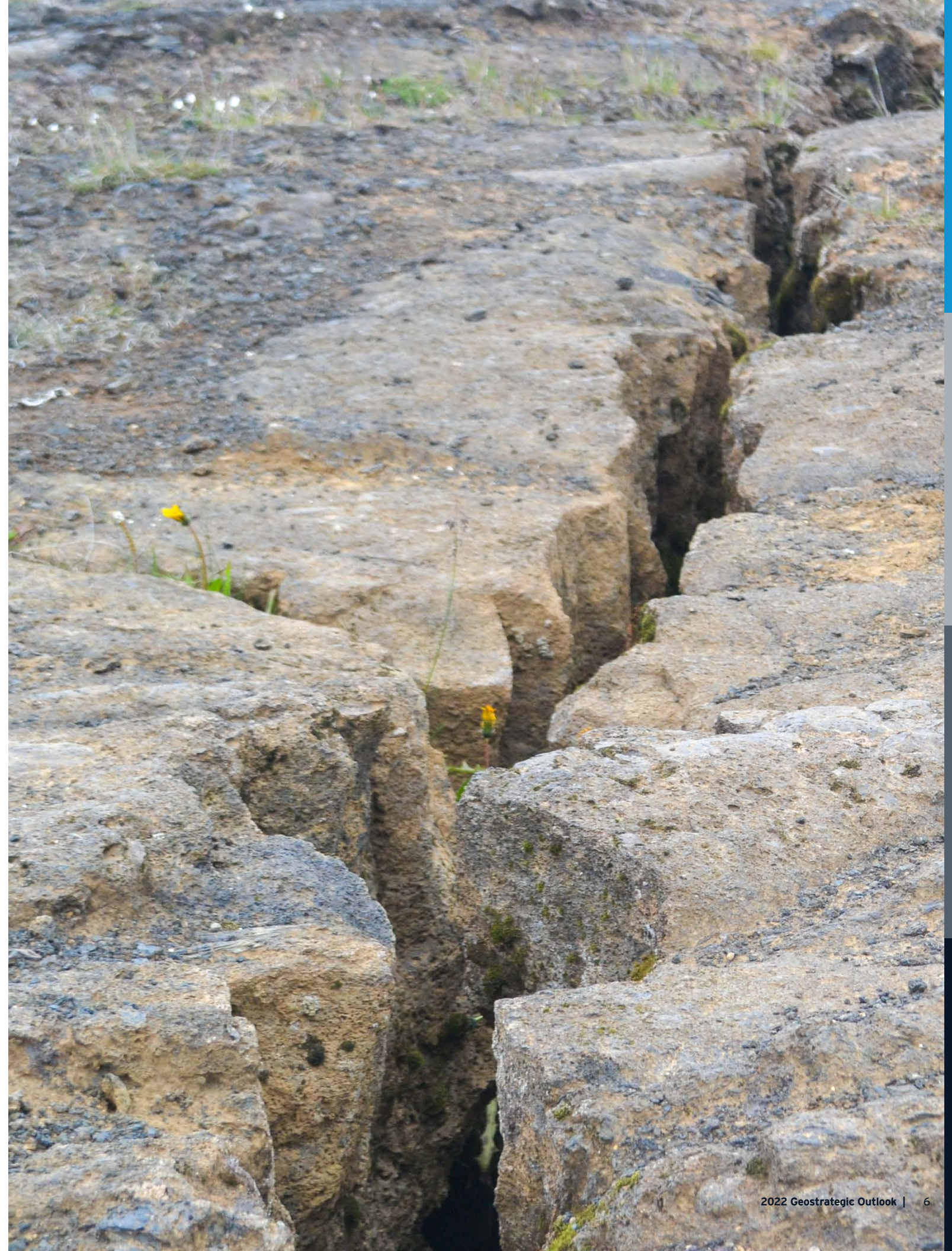
Beijing is likely to expand industrial policies to accelerate efforts to become self-reliant in strategic technologies, prioritizing semiconductors. China will likely also seek to expand international economic relationships that do not rely on the US dollar and may promote [raising capital](#) in domestic markets.

Business implications

- ▶ **Growth and investment opportunities diverge.** As more limitations on and disincentives for cross-border investment are introduced, companies are likely to have fewer merger and acquisition (M&A) or investment opportunities between China and the US or EU. A variety of other markets within companies' home countries' spheres of influence may offer more opportunities instead.
- ▶ **Supply chain reorientation.** Industrial policies and other restrictive trade policies may elevate the importance of reliability over cost considerations, creating opportunities for new suppliers within the three great powers (onshoring), as well as among their neighbors (nearshoring) and allies (friendshoring). This reorientation may challenge some traditional supply chains, though, and lead to higher costs for many companies.
- ▶ **Reputational and compliance risks abound.** Companies with operations and sales in both China and the industrialized democracies will likely face national security restrictions and divergent ESG regulations across these markets. Companies' responses could create reputational risks, with win-win situations becoming increasingly difficult to find.

Recommended actions

- ▶ Incorporate geopolitical risk analysis into [M&A decisions](#), particularly when one or more of the great powers are involved.
- ▶ Evaluate supplier relationships for potential [geopolitical complications](#) and explore alternative [supplier networks](#) attuned to the new policy environment.
- ▶ Invest in greater [ESG transparency](#) across global operations and actively engage with stakeholders in key markets to improve mutual understanding.





3. Geopolitical swing states

Theme: Stabilized volatility

The emerging shift from a multipolar to bipolar world has created growing pressures on **middle powers** to align with a geopolitical bloc. But some will seek to maintain relations with multiple global powers and maximize diplomatic leverage. In 2023, India, Brazil, Turkey and Saudi Arabia will be among the most influential geopolitical swing states, with outsized impact on dynamics relating to the war in Ukraine and other global issues.

India's neutral position toward the war in Ukraine will likely come under growing pressure. New Delhi will seek to strengthen alliances, such as through the Quad, in part to address the situation with its strong neighbor, China. It will likely also continue trade with Russia, particularly for energy and, to a lesser extent, defense purchases. And its 2023 chairmanship of the Group of 20 (G-20) could enable New Delhi to set the global agenda on key issues.

Brazil will also pursue an **independent foreign policy**, likely continuing energy ties with Russia while engaging with Ukraine. More broadly, the return of Luiz Inácio Lula da Silva to the presidency is likely to reinvigorate Brasilia's **engagement in multilateral and regional forums**.

Turkey will continue to play a critical role in the war, as it both sells drones to Ukraine and opposes some sanctions on Russia. Ankara's NATO membership also grants it geopolitical sway, such as through its **influence on new member accessions** to the alliance.

Saudi Arabia will likely continue to shift away from its historical partnership with the US. Riyadh will be particularly influential geopolitically through its role as an Organization of the Petroleum Exporting Countries (OPEC) leader.

Business implications

- ▶ **Supply chain alternatives:** Geopolitical swing states are likely to play a larger role in global supply chains. Turkey's exports are at an all-time high, for example. Their seeking of new trade relationships could open new supplier opportunities. India, for instance, will accelerate ongoing **free trade agreement negotiations** with several key markets.

- ▶ **Strategic investment opportunities:** Swing states' interest in strengthening their geopolitical leverage will lead to prioritizing the development of strategic sectors, providing private sector investment opportunities. For example, India and Saudi Arabia are each seeking to play a larger role in the semiconductor value chain.

- ▶ **Sources of reputational risk:** Geopolitical swing states' foreign policies could lead to sudden shifts in pressures from companies' home country stakeholders, including governments, consumers and investors. And there could be conflicting stakeholder pressures within these markets. Amid volatile geopolitical balancing, the lack of predictability may heighten reputational risks.

Recommended actions

- ▶ Build **operational resilience** to improve agility to pivot if geopolitical swing states shift their global positioning.
- ▶ Explore **market and investment opportunities** introduced by geopolitical swing states' foreign and domestic policies.
- ▶ Develop and strengthen **stakeholder relations** in geopolitical swing states to proactively manage reputational risks.

4. Focus on economic self-sufficiency

Theme: Stabilized volatility

Recent geopolitical developments have reinforced many governments' goals of reducing their economies' reliance on other countries – particularly on strategic rivals and in critical sectors. The COVID-19 pandemic, the ESG agenda, US-China competition, the war in Ukraine and other geopolitical tensions have led many governments to conclude that they need greater self-reliance to enhance national security. Policymakers' focus on economic self-sufficiency is expected to continue in 2023.

Governments are pursuing self-sufficiency through a variety of incentives and restrictions. The three great powers will continue to be among the countries framing economic competition in security terms. In 2023 this will include the continued legislation and implementation of the EU's strategic autonomy agenda, the implementation of the Inflation Reduction Act (IRA) in the US and a renewed focus on dual circulation in China.

These initiatives tend to be sector specific with an emphasis on strategic industries. For example, the US, the EU, South Korea and others are creating incentives for domestic production of electric vehicles (EVs) and their batteries. The US policy extends to critical minerals used as battery inputs – which may raise trade tensions, even with allies. The European Commission also will likely propose measures to encourage domestic production of critical raw materials.

In some instances, this self-sufficiency is defined more broadly to include allies and partners, with policies that promote nearshoring and friendshoring. This is a recognition both of natural resource endowments and that sourcing from allies addresses most national security concerns while limiting the trade-off with economic efficiency.

Business implications

- ▶ **Reduced growth and increased inflation.** At a macro level, these self-sufficiency policies are likely to weigh on economic growth and stoke inflation because of the reduced economic efficiency of less cross-border trade and investment. The likely shift to higher-cost suppliers and producers will impact companies across sectors and geographies.
- ▶ **Opposing investment and compliance impacts.** Government policies to promote domestic production will provide investment opportunities for some companies in their home markets. But compliance costs will increase due to the need to demonstrate the adherence to specific sourcing rules to qualify for incentives or address market access restrictions.
- ▶ **Supply chain pressures spread to other functions.** Procurement and supply chain teams will be at the forefront of shifts to meet self-sufficiency sourcing pressures. These strategic shifts will ripple throughout companies, though, with tax, talent, marketing and other functions needing to adapt. Talent implications are likely to become more important as reshoring continues.

Recommended actions

- ▶ Engage in operating model and [supply chain](#) reorientation efforts that take into account geopolitical and country-specific policy shifts.
- ▶ Incorporate [political risk analysis](#) into strategic planning to assess the likelihood and impact of increasing requirements for domestic production.
- ▶ Identify potential opportunities from [tax credits and incentives](#) to align operations in key markets while diversifying to avoid overexposure to certain markets.



5. Hardening of technology blocs

Theme: Stabilized volatility

In recent years, geopolitical competition surrounding economic self-sufficiency has prioritized self-reliance in critical technologies. In 2023, technology will continue to be a strategic area of geopolitical competition, with policies likely to expand through new trade and investment controls. These trends may further reinforce the emergence of fragmented and distinct technology blocs.

Strict [technology export controls](#) in response to the war in Ukraine have effectively cut Russia off from developed-market technologies. The US, the EU, Japan and their allies will likely further [restrict China's access](#) to critical technologies, including semiconductors and the software needed to design them. US [export controls](#) announced in October 2022 represent a fundamental shift toward actively inhibiting China's progress in these sectors. China is poised to respond using [new export control laws](#).

Cross-border technology investment regulations will likely also expand with the EU and its member states employing greater scrutiny. And even as the mandate of the Committee on Foreign Investment in the United States (CFIUS) grows, the US is expected to adopt an "outbound" [investment screening program](#). Meanwhile, incentive-based regulations like the US [CHIPS and Science Act](#) will prohibit sensitive investments in China and other countries considered to be strategic competitors.

Data localization laws and divergent technology standards may also harden technology borders. Proliferating regulations and legal frameworks in influential markets such as China, [Indonesia](#) and [India](#) are likely to complicate digital operations. Standards will also rise in geopolitical importance as the US and the EU [collaborate](#) on emerging technologies while China continues to pursue [influence in international organizations](#).

Business implications

- ▶ **Growth and investment will face limitations.** The proliferation of trade and investment restrictions for technology and data may curtail investment opportunities for suppliers and manufacturers, especially those requiring strategic technologies to innovate. Companies may have new opportunities within their home market though.
- ▶ **Operations and supply chains must adapt.** Technology-related industrial policies may reduce the viability of current supplier relationships and manufacturing and R&D footprints. Diversification may incur increased operating costs and pose hurdles to efficient operations, while also offering opportunities to establish or expand supplier ecosystems.
- ▶ **Data and intellectual property complexity grows.** The expansion of country-specific policies is likely to complicate digital architectures and data sharing, both within and across companies. More robust compliance functions may be required to manage this complexity. And more disparate data ecosystems could also create greater [cybersecurity vulnerabilities](#).

Recommended actions

- ▶ Reassess [portfolio and transaction strategies](#) to account for increased restrictions on the cross-border trade of sensitive technologies and data.
- ▶ [Develop future talent](#) and skill sets required to manage a more distributed technology landscape.
- ▶ Assess [digital footprints](#) for the need to develop multiple technology structures - while maintaining proactive [cybersecurity and resilience](#) capabilities.



2023 Geostrategic Outlook

Policy trade-offs

6. Energy security imperative

Theme: Policy trade-offs

Energy security skyrocketed to the top of policymakers' agendas in 2022, particularly in Europe. Governments are pursuing multiple, sometimes incompatible, energy security goals simultaneously: reliability of supply, affordability for households and businesses, and environmental sustainability. Policymakers are likely to diverge in their prioritization of these goals in 2023, leading to a more complex global energy landscape.

Most governments will continue to prioritize supply reliability to support households and economic activity. This will include seeking new energy [trading relationships](#) and expanding domestic energy generation, including hydrocarbons (such as [coal](#)) and renewables. Some governments will also support nuclear energy generation and invest in emerging technologies, such as [green and blue hydrogen](#).

Affordability will also be a primary concern. European governments will continue to support consumers and businesses through energy tax reductions and regulating wholesale or retail prices. For many emerging markets, affordability of energy subsidies will be a bigger challenge as international lenders will likely pressure governments to cut subsidies, which could heighten [social unrest](#).

Progress toward sustainability goals will vary. [Australia](#) and the [US](#) are likely to boost investment in renewables and energy efficiency as recently passed climate laws are implemented. And the [REPowerEU](#) initiative will continue to accelerate the energy transition in the EU. Other governments may also pursue sustainability investments that will ultimately translate into greater energy reliability and affordability. But sustainability policies depend in large part on the energy endowments of each country – with some hydrocarbons-rich markets continuing to rely on fossil fuels.

Business implications

- ▶ **Operations and supply chain challenges.** In markets with potential energy shortages, such as Europe, companies may face operations disruptions or shutdowns due to power use restrictions or blackouts. The effects of any such disruptions would ripple across supply chains. Greater use of fossil fuels could create challenges for companies' sustainability goals, particularly for scope 3 emissions.
- ▶ **Growth and investment opportunities.** The drive for energy security is likely to create growth and investment opportunities for companies across the energy sector – particularly utilities, renewables and mining – as well as those with products that improve energy efficiency. In some cases, government investment or consumption incentives will amplify these opportunities.
- ▶ **Tax rate volatility and divergence.** Tax rates related to energy production and consumption are likely to be uncertain as governments continue to calibrate their responses to the energy security imperative. And as governments in different countries pursue divergent policies, companies are likely to face a more complicated global tax landscape.

Recommended actions

- ▶ Identify potential disruptions to operations to improve [enterprise resilience](#) and engage with governments to explain the business implications of policy proposals.
- ▶ Capitalize on government incentives for growth opportunities and align new investments with broader [sustainability strategies](#).
- ▶ Monitor energy and sustainability tax policy changes in key markets and [ensure compliance](#) in a shifting global tax landscape.

7. Multispeed ESG policies

Theme: Policy trade-offs

ESG issues have noticeably climbed CEOs' agendas in recent years. In 2022, a pushback against ESG in some markets and geopolitical tensions globally highlighted that achieving ESG goals will be bumpy and potentially painful at times. In 2023, governments will likely make trade-offs on related policy goals, creating a more uncertain regulatory environment.

On the environment, governments and companies will face short-term challenges in achieving their [nationally determined contributions \(NDCs\)](#) and net-zero goals amid heightened near-term reliance on fossil fuels due to the war in Ukraine. Many governments will seek to accelerate the energy transition. And as extreme weather events continue to devastate communities and disrupt economies, some governments will invest in adaptation measures – although [funding will likely remain below](#) estimated needs.

Social policies are likely to diverge across countries. In markets such as the US and the EU, governments will likely prohibit the use of forced labor in global supply chains. And Japan will be among the countries requiring more [human capital disclosures](#). Some governments will be challenged by the perceived trade-off between the energy transition and the socioeconomic viability of communities dependent on fossil fuel industries.

Governance issues will likely focus on facilitating nonfinancial corporate reporting of ESG issues and establishing [ESG roles and mandates](#) for company boards – with the [EU as the clear leader](#) in such regulations. There may be more attention to geopolitics as the [new “G” in ESG](#). And more governments may put in place [disclosure rules](#) related to board diversity.

Business implications

▶ **ESG supply chain strategy.** Companies' supply chain strategies will be affected by the potential for increased or decreased emissions resulting from shifting supply chains, straining outdated infrastructure, human rights concerns in some markets and geopolitical relations. Along with the potential for [sustainability to generate more financial value](#), these considerations will influence decisions to onshore, nearshore or friendshore suppliers.

▶ **Reputational upsides and downsides.** Harnessing the long-term value creation narrative is likely to continue to provide competitive advantages and reputational upsides with stakeholders in many markets – although a backlash may persist among some investors. At the same time, civil society activism, including legal challenges, around greenwashing and ESG transparency may pose downside reputational risks.

▶ **Human capital strategy.** Companies' approaches to ESG issues are likely to remain a differentiator in attracting and retaining talent, particularly among younger employees. And how different governments approach policies across the ESG spectrum could affect companies' strategies for where they employ workers globally.

Recommended actions

- ▶ Incorporate [ESG risks and opportunities](#) into strategic planning, particularly with regard to supply chain [decarbonization](#).
- ▶ Improve and digitize [nonfinancial data and reporting](#) capabilities to enhance compliance, transparency and strategic insights.
- ▶ Assess how [culture and talent](#) strategies could leverage ESG policies and goals to create new workforce opportunities.



8. Inflation-recession paradox

Theme: Policy trade-offs

The emergence from the COVID-19 pandemic and the war in Ukraine's impact on [commodity prices](#) drove inflation to levels not seen in half a century. Developed markets have been hit [particularly hard](#). High inflation is likely to persist in 2023, even as central bank interest rate tightening could push economies into recession.

The US Federal Reserve is expected to keep interest rates at [elevated](#) levels – as will many other central banks. Japan will be an outlier with relatively [loose monetary policy](#), but weak economic growth is forecast to persist. Aggressive rate tightening means the US, the Eurozone and other developed markets are likely to enter recessions and see [unemployment rates climb](#). This could lead to more changes in government and political instability, particularly amid ongoing concerns about inequality in some markets.

Emerging markets will also face economic hardship in 2023. Food and fuel are a [significant portion](#) of household spending in these markets, increasing their vulnerability and the risk of social unrest. Higher US interest rates will likely continue to weaken [domestic currencies](#), which could further drive inflation through higher import costs. And weaker demand from developed markets could dampen exports.

Elevated interest rates will also be a key risk for [highly indebted governments](#), particularly those with a large proportion of US-dollar-denominated debt. Governments will likely need to raise tax revenue to meet higher debt repayments. Even so, sovereign defaults and economic crises are likely in 2023 – which could lead to political instability in some countries.

Business implications

- ▶ **US dollar impacts supply chains and finance.** The strength of the US dollar will make it more costly for firms, particularly in emerging markets, to import. US-based multinationals can expect to see eroded profits in geographies outside the US. Firms with local supply chains could see a boost in their competitiveness.
- ▶ **Higher cost of credit.** Elevated interest rates may make it harder for some companies to obtain credit and meet existing debt obligations. However, this presents opportunities for private equity firms and nontraditional lenders. The financial sector will experience higher revenues, but likely see an increase in nonperforming loans and mortgage defaults.
- ▶ **Revenue limited by customer vulnerability.** Incomes squeezed by high inflation and the cost of credit may depress sales and revenue growth. Companies with lower-cost products will likely benefit as consumers shift toward more affordable brands and product categories.
- ▶ **Risk of higher taxes.** As governments' cost of borrowing increases, there will be pressure to raise taxes, particularly in emerging markets in the near term. Food and fuel subsidies will also likely be reduced or removed in emerging markets, which will further add to the cost of doing business.

Recommended actions

- ▶ Enhance revenue using innovative and dynamic [pricing strategies](#) and an understanding of where costs can be passed on.
- ▶ Review [capital allocation](#) and [capital structure](#) to better position for a high-interest-rate environment.
- ▶ Leverage [tax incentives](#) to reduce costs, while at the same time monitoring governments' fiscal situation for possible shifts in tax rates.





9. Food insecurity and instability

Theme: Policy trade-offs

Almost one-third of the world's population lacked [access to adequate food](#) in 2021 and then global food prices hit an [all-time high](#) in March 2022. Climate change – and the associated policy responses or lack thereof – is a key driver of global food insecurity. The war in Ukraine and related policy responses are another. Food insecurity is therefore likely to remain a major challenge in 2023, increasing the risk of political instability.

The war in Ukraine will likely continue to limit the global supply of nitrogen-based fertilizers, wheat and cooking oils. While the Black Sea Grain Initiative unlocked critical wheat exports in 2022, its uncertain future highlights that risks to stable supplies are likely to persist. This will be particularly challenging for countries reliant on Ukrainian [agricultural exports](#), such as Egypt, Indonesia, Pakistan and Lebanon.

There may also be further extreme weather events that exacerbate food insecurity, such as the unprecedented flooding in Pakistan in August 2022 that resulted in 11 million people facing food insecurity. The global south, particularly sub-Saharan Africa, will likely remain most vulnerable to these events because of geographic factors exacerbated by higher levels of political instability and economic constraints.

Governments will be challenged to stabilize prices amid elevated interest rates and high import costs. More governments may impose export controls for agricultural goods, like India and Indonesia did in 2022. If so, a lack of [coordinated global action](#) means food insecurity will likely continue to elevate the risk of political instability.

Business implications

- ▶ **Limited supply chain options.** The complexity of agricultural markets and the long production cycle make food supplies highly susceptible to geopolitical disruptions. These disruptions will likely be exacerbated by governments implementing more restrictive export bans and nationalist policies.
- ▶ **Higher costs and reduced demand.** Supply disruptions and the broader inflationary environment will continue to increase input prices across the agribusiness and food value chain. Passing these costs on could lead to a decrease in consumer demand. Higher capital costs may also impact companies' capital deployment.
- ▶ **Human capital challenges.** Near-term challenges, including labor shortages and inflationary pressures, and long-term challenges such as climate change will continue to negatively impact on the agricultural sector's workforce. More broadly, food insecurity can undermine workforce participation and productivity throughout a country's economy.

Recommended actions

- ▶ Engage with governments and international organizations on food insecurity to identify areas of potential [partnerships](#) to address the issue.
- ▶ Digitalize agribusiness operations to enable [greater transparency](#), better management of complex supply chains and enhanced food security.
- ▶ Perform regular assessments to [identify and monitor risks](#) to operations and supply chain disruptions stemming from geopolitical uncertainty and social unrest.

10. Latin America's left-leaning governments

Theme: Policy trade-offs

Left-leaning politicians have recently been elected president in Brazil, Colombia, Chile, Bolivia and Peru – joining ideologically similar governments in Argentina and Mexico. This resurgence of the left reflects a rejection of incumbents because of disillusionment with COVID-19 pandemic policies and long-standing economic and governance concerns. In 2023, rising pressure to address these problems will be complicated by sometimes weak political mandates, economic challenges and increased geopolitical rivalry.

Latin American economies are key producers of [agricultural commodities](#), so their policy choices may affect global food security dynamics. They are also critical [global suppliers](#) of [green minerals](#), including copper and lithium. Some governments may follow Mexico's lead in increasing state involvement in the energy sector. But they may face trade-offs associated with attracting investment vs. increasing government control of strategic resources.

Sluggish economic growth and high debt levels could limit plans by left-leaning governments to expand social welfare and economic development programs, as well as preserve natural resources and biodiversity. If they are unable to deliver, political instability is likely to increase – particularly given rising demands from indigenous populations and high levels of crime in some jurisdictions.

Many Latin American governments will seek to play the US and China off each other to attract more investment, including highlighting their proximity to the US as a nearshoring opportunity. The geopolitical environment will remain complex, as Argentina seeks to join the Brazil-Russia-India-China-South Africa (BRICS) grouping, Colombia renews diplomatic ties with Venezuela and Mexico [rebuffs US diplomacy](#) in the region.

Business implications

- ▶ **Finance and revenue risks for the mining sector.** Companies are likely to face efforts to limit foreign ownership in green minerals, as well as windfall or profits taxes or higher duties and excise rates. In some markets, mining companies may face expropriation risks via nationalization or the creation of new state-owned enterprises.
- ▶ **Growth and investment opportunities.** Governments may seek to boost foreign direct investment (FDI), which could provide new business opportunities. They are likely to be particularly welcoming of investment in priority sectors such as health care, manufacturing, infrastructure and telecommunications.
- ▶ **Supply chain complexities.** Government intervention in the mining sector may create supply chain challenges for downstream customers such as auto manufacturers. Some companies may find new supplier opportunities in Latin America thanks to long-standing economic ties to the EU and new US nearshoring and friendshoring policies.

Recommended actions

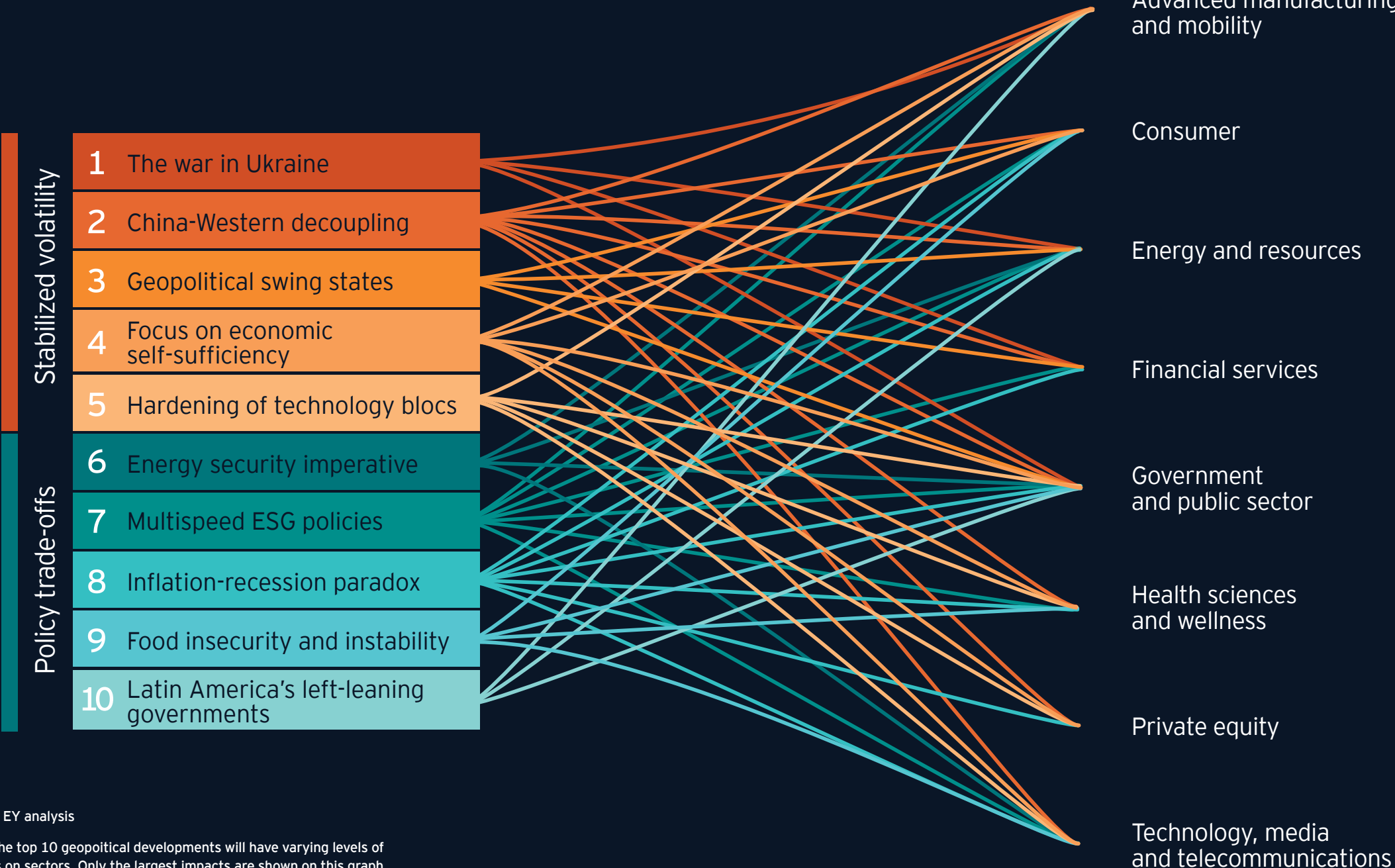
- ▶ Be prepared to mitigate the potential for reputational risk concerning [environmental and social issues](#), particularly in the mining sector.
- ▶ Include broad stakeholder expectations when pursuing new [strategic investments](#) in Latin American markets.
- ▶ Develop and implement a systematic, sustained process for [managing political risk](#) across key markets in Latin America.



Market themes and business impacts

The top 10 geopolitical developments in the 2023 Geostrategic Outlook will have broad-based impacts on companies across sectors and geographies. But each development is likely to have more direct impacts on certain sectors, particularly in the near to medium term (see Figure 2). The key market themes and business impacts for eight sectors are outlined in this section.

Figure 2. The constellation of relevant geopolitical developments differs by sector



Source: EY analysis
 Note: The top 10 geopolitical developments will have varying levels of impacts on sectors. Only the largest impacts are shown on this graph.



Advanced manufacturing and mobility

Geopolitical developments will likely continue to affect growth opportunities and strategic options for manufacturing companies. While some policies are squeezing manufacturers in terms of supplier options and input prices, other policies are boosting demand for some industrial products.

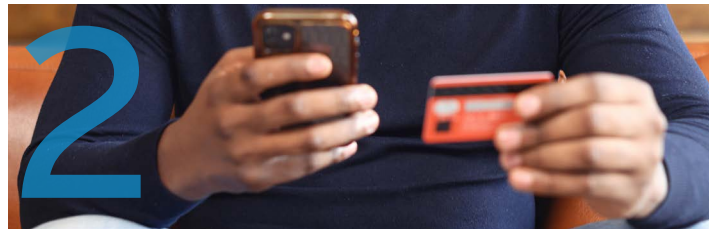
The war in Ukraine and **China-Western decoupling** will contribute to the persistently high level of geopolitical tensions among a variety of key countries. Such tensions are in turn likely to continue to generate higher demand for aerospace and defense products. This will be particularly true in the three great powers – the US, EU and China. In addition, if China-Western decoupling continues, manufacturers could face challenges associated with underutilized capacity in the near to medium term and would need to find alternative customer markets in the long term.

The **energy security imperative** will also have a significant impact on manufacturing companies, as industrials typically have high energy demands. Government policies will directly affect the availability and cost of energy for manufacturers – as well as for petroleum-derived inputs for chemical companies. In some markets, the impact of the global energy crunch may be softened by government subsidies. In others, industrials may face forced shutdowns to conserve energy for households and other end users – which may prompt more companies to move operations out of Europe.

Supply chains will continue to be affected by the **hardening of technology blocs**, as the use of semiconductors and other technological inputs is likely to be increasingly restricted to groups of allied countries. Many manufacturing companies will likely seek to diversify or otherwise shift their suppliers of technology inputs to avoid supply disruptions and compliance issues.

Governments' **focus on economic self-sufficiency** will directly target some manufacturing subsectors, including electric vehicles (EVs), advanced manufacturing, aerospace and robotics. Manufacturers of these and other products deemed to be of geostrategic importance are likely to face increasing pressures and incentives to onshore, nearshore or friendshore their **operations**. Although this could raise costs in the near term, such policies could also provide manufacturers with new growth and investment opportunities, particularly in large markets. For companies with US operations, **Latin America's left-leaning governments** could affect the nature and location of such nearshoring opportunities.

There are also a variety of aspects of **multispeed ESG policies** that could affect business models in the sector. Manufacturers' reliance on critical metals and minerals as inputs generates environmental concerns, especially surrounding scope 3 emissions – although emissions associated with transportation could fall if onshoring or nearshoring trends persist. Manufacturers also face policymaker and regulatory scrutiny for social issues such as labor rights.



Consumer

While most governments do not consider consumer to be a geostrategic sector in terms of national security or international competitiveness, geopolitical developments will nevertheless have significant impacts on consumer companies throughout 2023. In particular, there is a risk that revenue and growth opportunities will be curtailed and that supply chains will continue to be disrupted in a variety of ways.

How policymakers handle the **inflation-recession paradox** will determine macro-level **growth and revenue opportunities** for the consumer sector. Affordability was the top priority among consumers in the latest *EY Future Consumer Index*, suggesting that companies cannot pass all of the higher input costs they face onto consumers via higher prices. Many consumer companies are also likely to see reduced levels of demand – although low-cost brands may have an opportunity to increase market share.

China-Western decoupling will have multiple effects on consumer companies. The China market is a significant source of revenue for many consumer companies. If China's economic growth continues to be below recent historical norms, consumer companies are likely to fall short of revenue expectations. In addition, China's role in consumer companies' global supply chains is likely to be increasingly complicated by rising geopolitical tensions between Beijing and Washington (as well as COVID-19 policies).

Consumer companies' supply chains are also likely to continue to be disrupted by governments' **focus on economic self-sufficiency**. Policy incentives to onshore, nearshore or friendshore supply chains will likely create strategic and logistical challenges – but could also generate opportunities to reduce transportation and other costs. And the policies of **geopolitical swing states** that are key suppliers of inputs – such as Brazil for soybeans and Indonesia for palm oil – have the potential to alleviate or exacerbate supply chain disruptions.

Policies around **food insecurity and instability** will also have a significant effect on the consumer sector. Farmers and agribusiness companies will likely continue to face rising fertilizer and other production costs amid geopolitical tensions. And agribusiness and food companies will have to navigate an increasingly complex regulatory environment as governments introduce new policies to deal with the food crisis.

At a strategic level, **multispeed ESG policies** will affect consumer companies in a variety of ways. Supply chains are likely to continue to be reorganized according to both "E" and "S" considerations, while ESG reporting and the potential for more carbon prices could impose compliance and tax costs. And the sector may face elevated reputational risks associated with ESG-driven consumer boycotts. Adopting **more sustainable strategies** will continue to have the potential to deliver top-line growth, bottom-line savings and intangible benefits for consumer companies (e.g., reputational).



Energy and resources

The energy and resources sector was significantly impacted by geopolitical developments in 2022 – a trend that is expected to persist in the year ahead. Nearly all of the top 10 geopolitical developments for 2023 will affect energy companies, with strategic implications in both the short and long term.

In the short term, global supply and demand dynamics for energy will continue to be driven by geopolitics. On the supply side, **the war in Ukraine** and the associated developed-market sanctions on Russian oil and gas will limit energy supplies in some markets, most notably Europe. The **geopolitical swing states** that are large energy importers, such as India, are likely to continue to purchase discounted Russian energy – which could affect global supply dynamics. Other **geopolitical swing states**, such as Saudi Arabia, are critical energy suppliers, so their policy and production choices will affect global energy market dynamics as well.

And on the demand side, the **inflation-recession paradox** raising the risk of recession in large developed markets such as the US and the Eurozone – in conjunction with the continued lower economic growth outlook in China – is likely to weigh on energy demand. Perhaps more important to the demand outlook will be **China-Western decoupling**. Beijing's economic and social policies could have the potential to reinvigorate economic activity and thus boost global demand for energy and resources.

The **energy security imperative** will act as a bridge between the short-term challenges of supply and affordability and the long-term challenge of sustainability. Policymakers are likely to continue to send the market mixed signals, seeking to incentivize demand reductions while simultaneously trying to control energy costs for end consumers. The uncertainty of how long such policies will be in place and how they will be paid for will weigh on companies in the sector.

In the long term, the dynamics around the energy transition will continue to dominate the energy and resources sector. Governments are increasingly focused on these policy issues, with sustainability regulations likely to tighten on the energy and resources sector and affect companies' cost of capital. **Multispeed ESG policies** will create divergent opportunities and challenges across countries and subsectors. For instance, utilities and electrification companies will have significant growth and investment opportunities.

Growth opportunities will be similarly strong for mining and metals companies that supply the inputs needed for EV batteries and other renewables technologies – although **Latin America's left-leaning governments** and political dynamics in resource-rich African countries are likely to heighten political risks for miners.



Financial services

Geopolitical developments affecting financial institutions have expanded significantly in recent years and are likely to persist in 2023. Sometimes these impacts will be direct. Other times they will be indirect, such as policy shifts that affect financial institutions' customers and the economies in which they operate.

The higher interest rates that central banks are adopting in response to the **inflation-recession paradox** create potential opportunities in terms of the interest rates banks offer on loans and deposits. However, economic challenges could reduce overall demand for financial services, and higher inflation may hit claims costs for insurance companies. The combination of the strong US dollar plus heightened geopolitical tensions may accelerate other nations' use of their own currencies for trade settlement and the development of new central bank digital currencies (CBDCs), with implications for foreign exchange, capital markets and payments.

Developed markets' sanctions on Russia in response to **the war in Ukraine** will likely continue to have a significant effect on financial institutions in terms of **operational resilience** and sanctions compliance. Financial institutions will need to continually assess their counterparties to determine whether they are subject to sanctions – including those in **geopolitical swing states** that continue to do business with Russian entities. If secondary sanctions are imposed, compliance will become even more costly and challenging – even as the shifting power of global financial hubs makes diversity of market access more important.

Global financial institutions or those with cross-border interests are also likely to be impacted by **China-Western decoupling**. Competing capital markets and payments networks, including increased Chinese renminbi (RMB) usage, are likely to be accelerated. Any main-street decoupling will drive financial decoupling as well. And if there is a sharp rupture in economic and financial relationships between China and developed markets, financial institutions are likely to suffer from high market volatility, lower asset values and reduced capital efficiency and mobility. Shifts in value chains across sectors will affect business and operating models, creating growth and efficiency challenges. Western financial institutions may also need to adjust strategies that are based on access to the growing wealth generation and maturation of the China market.

In some markets, financial institutions are at the center of **multispeed ESG policies** because many policymakers recognize that financial institutions have a critical role to play as providers of financing for the green transition and other sectors' decarbonization efforts – although this role is likely to continue to be challenged in some markets. Efforts to combat greenwashing in financial products will likely also continue. Beyond regulatory compliance, many financial institutions are likely to continue to view **ESG considerations** as a strategy for long-term risk mitigation.



Government and public sector

Unsurprisingly, governments and the public sector will be affected by all 10 geopolitical developments in 2023. In some cases, policymakers will be forced to respond to exogenous shocks. In other cases, governments are creating political risks and policy challenges through their own actions.

Governments face opportunities and challenges in adapting to a new era of increased policymaker involvement in driving and directing economic activity. The shift away from the "invisible hand" of market forces and toward stronger industrial policy in many countries is likely to persist in 2023, including through the **focus on economic self-sufficiency** and the **hardening of technology blocs**. Such policies may enable governments to support new investments in their economies that boost international competitiveness – although they face potential pitfalls associated with productivity declines and rising costs, and tensions with trading partners.

These industrial policies are also contributing to the diminished authority and effectiveness of multilateral institutions such as the World Trade Organization (WTO). The effectiveness of the United Nations (UN), particularly the Security Council, is also at risk from geopolitical developments including **the war in Ukraine, China-Western decoupling** and **geopolitical swing states**. The weakening of the multilateral system will likely exacerbate challenges for governments to effectively address global challenges such as climate change. This is clear from the trend toward **multispeed ESG policies** rather than a more coordinated global solution on carbon pricing, sustainability reporting and related policies.

The external environment is also generating urgent crises, which governments in countries around the world will need to address, such as the energy security imperative, **food insecurity and instability** and the **inflation-recession paradox**. The latter is likely to be particularly impactful given the limited fiscal resources of many governments around the world. Each of these crises would be plenty for policymakers to handle in isolation, but they are occurring simultaneously.

These crises are also interrelated, which creates challenges for governments but possibly also opportunities in terms of addressing them in tandem via well-designed policy responses. **Latin America's left-leaning governments**, for instance, have an opportunity to help other governments address energy security and food instability by boosting exports of green minerals and agricultural commodities – while simultaneously supporting Latin America's economic growth and providing the fiscal resources to invest in more social spending.

Throughout 2023, geopolitical developments are also likely to create or exacerbate humanitarian crises. Climate change, extreme weather events and **food instability and insecurity** could lead to forced migration from some vulnerable countries and regions. Similarly, **the war in Ukraine** is likely to continue to push refugees into other European countries – even as European countries begin to formulate plans for the reconstruction of Ukraine.



Health sciences and wellness

Pharmaceuticals, medical devices and other health care products companies are likely to be significantly impacted by geopolitics in 2023 – particularly in terms of their supply chains and operations. And despite health care delivery being a highly localized industry with unique structural characteristics in each country, it is nevertheless likely to be affected by some geopolitical developments as well.

The **inflation-recession paradox** will impact companies across the health sciences and wellness sector. Life sciences companies will likely continue to face rising input and production prices. Labor cost inflation will likely continue to be significant, which could lead to societal risks such as labor disputes in some markets. In addition, the government is often the largest payer in the health care system, which tends to limit the degree to which health providers can increase prices – even as their input costs are pushed up by inflation.

In the wake of the public health crises unleashed by the COVID-19 pandemic, governments began to acknowledge pharmaceuticals and medical devices as a geostrategic sector vital to economic and national security. As part of the heightened **focus on economic self-sufficiency**, it is likely that policymakers will continue to explore a broad range of **interventions in the sector's supply chains**.

Geopolitical dynamics surrounding **China-Western decoupling** will also affect health sector supply chains. For instance, some active pharmaceutical ingredient (API) companies will continue diversifying their suppliers and manufacturing facilities to a wider array of markets. And domestically, Beijing is likely to continue to implement regulations to reduce drug prices while also seeking new investment in biopharmaceuticals and advanced medical products.

The **hardening of technology blocs** will affect pharmaceutical firms in terms of stricter controls or limits on cross-border data flows, which can affect the size and efficacy of clinical trials. In addition, the health sector is at heightened risk of cyber attacks – including state-sponsored or politically motivated attacks – given the proliferation of internet-enabled medical devices and the value associated with personal health data.

With rising attention to the broader aspects of health, the sector will also be affected by **food insecurity and instability** because food and nutrition are vital to individuals' health and wellness. And **multispeed ESG policies** will affect health companies due to the growing emphasis on health equity and the social impact of health care. There will likely also be an increasing focus on ESG reporting – due to both regulatory requirements and the interest of health companies' other stakeholders.



Private equity

The impact of geopolitical developments varies across sectors and geographies, so for private equity (PE) firms, much of the impact lands at the portfolio company level. Any or all of the top 10 geopolitical developments may affect PE firms, depending on the sectors present in their individual portfolio. But regardless of their portfolio holdings, PE firms are likely to be affected by several political risks at a macro sector level.

In recent years, PE firms have tended to view the whole global economy as an open market from which they could identify potential investors and acquisition targets. This globalized model will likely face increasing political risk headwinds as governments continue to **focus on economic self-sufficiency**. As policymakers impose more restrictions on cross-border trade and investment, there are likely to be more “no-go” market segments for PE firms, which could restrict growth and investment. At the same time, however, the onshoring push will likely create opportunities for new deals within domestic markets.

Another key challenge for the PE sector will be the **inflation-recession paradox**. This economic uncertainty may push PE firms to focus more on managing their current portfolio rather than making new acquisitions. And as major central banks tighten interest rates in an attempt to control inflation, PE firms will face elevated capital costs. This will likely be exacerbated by banks' hesitancy to lend amid financial market volatility. PE firms will face the most favorable capital and financing environment in markets where policymakers are able to stabilize inflation without pushing the economy into a recession.

And given that China is the second-largest economy in the world, **China-Western decoupling** will have an important impact on the PE sector. Heightened geopolitical tensions among the great powers and increasing regulatory restrictions on cross-border investment mean that cross-border PE firms will likely focus on deals in sectors not deemed to be of geostrategic importance. Similarly, technology has been a central investment theme in the PE sector in recent years, so the **hardening of technology blocs** could constrain future opportunities in that space (although new opportunities could be found by following the focus areas of governments' industrial policies).



Technology, media and telecommunications

Many global technology companies thrived in an era of open digital borders but rising geopolitical tensions and important advances in emerging technologies have made the technology sector central to geostrategic competition. Data has similarly become a strategic asset thanks to the digitization of a variety of activities and industries. The world is becoming a fragmented landscape of **data protection laws** and **cybersecurity standards**. Government policies and **geopolitical tensions** will continue to shape opportunities for the sector in 2023.

The **hardening of technology blocs** and the **focus on economic self-sufficiency** are likely to impact technology companies most directly. Government policies to restrict rivals' access to and support the domestic development of critical technologies are likely to prompt some companies to rethink their entire **global supply chain** and ecosystem. Semiconductor manufacturers are likely to continue to be the focus of export controls and other restrictive policies, although artificial intelligence (AI), quantum computing and software companies could also face new restrictions. And telecommunications networks will continue to be viewed as core infrastructure critical to national security, so government restrictions on suppliers from strategic competitors are likely.

These nationalist and protectionist policies are likely to change the pattern of growth and investment opportunities away from markets with which companies' home governments have an adversarial relationship. But companies may have new opportunities in domestic or “friendly” markets, including through the push for self-sufficiency in data and cloud infrastructure.

Relatedly, **China-Western decoupling** will reinforce the **hardening of technology blocs** between China and developed markets. In addition, Beijing's domestic policies are likely to provide growth and investment opportunities for domestic companies that produce technologies that are deemed strategic, such as semiconductors, AI, quantum computing and space technologies. In contrast, e-commerce and consumer technologies may face regulatory scrutiny as part of the common prosperity agenda. And there are likely to be continued risks around cybersecurity and intellectual property, in line with broader global dynamics.

How policymakers navigate the **inflation-recession paradox** is likely to affect market dynamics in the technology sector. If consumers continue to retrench, demand for technology hardware and its inputs is likely to fall further as consumers delay purchases to upgrade their products – although demand for software is likely to be more resilient. These dynamics could further elevate the importance of services revenue for technology companies.

Technology companies could also face reputational and compliance risks associated with **multispeed ESG policies**. Some governments may heighten scrutiny of the environmental impact of the significant computing power associated with some technology firms in terms of energy and water use. And in some markets, regulator or other stakeholder pressure to improve diversity, equity and inclusion (DE&I) and social impact outcomes may intensify. Beyond regulatory compliance, many financial institutions are likely to continue to view ESG considerations as a risk mitigation strategy.

Many of the policy trade-offs that governments face also provide the technology sector with strategic opportunities to be part of the solution. For instance, new renewable energy and energy efficiency technologies could help address the **energy security imperative**. And agtech companies could help to reduce **food insecurity and instability** by improving yields and cutting down on food waste.



Geostrategic priorities

All of these geopolitical developments pose both challenges and opportunities for global organizations. For instance, multispeed ESG policies are likely to create new compliance requirements and could raise the cost of capital for some companies – but at the same time, they are likely to create new investment and growth opportunities for many companies. Similarly, China-Western decoupling could reduce cross-border transactions opportunities while also providing companies with a strategic opportunity to build more transparency and resilience into their supply chains. To thrive in an era of **geopolitical volatility and uncertainty**, companies will need to develop more strategic approaches to managing these and other political risks – and incorporating political risk into their long-term strategies.

Each of the top 10 geopolitical developments explored in the 2023 Geostrategic Outlook will affect companies in different ways and will therefore necessitate specific geostrategic actions to capitalize on the opportunities they present while also mitigating the challenges they pose. Nevertheless, there are five broad no-regrets geostrategic moves executives can implement to help their companies thrive amid stabilized volatility and policy trade-offs in 2023:

- 1. Manage higher costs.** Inflation is already high in many markets around the world and almost all the geopolitical developments in 2023 are likely to continue to push costs up for companies in the year ahead. Companies should expect higher costs for capital, energy, labor, and production inputs, including agricultural commodities, green minerals and semiconductors. In addition, government policies may push up regulatory compliance costs and tax bills for some companies. Executives should assess which rising costs are likely to impact their company and seek to proactively manage them. This could include **restructuring supply chains** and collaborating with suppliers and customers to limit price increases. It could also include strategies to enhance cross-border operating model effectiveness. And enhancing energy efficiency and **decarbonizing business processes** could lower energy costs for some companies.
- 2. Evaluate supplier ecosystems.** All 10 of the top geopolitical developments in 2023 are likely to impact supply chains – the second year in a row for which this is the case. Geopolitical

tensions and competition among governments to achieve self-sufficiency in geostrategic products will continue to complicate existing cross-border supply chains. Strategic supply chain shifts are likely to be most significant surrounding the technology sector – including companies within the sector as well as their suppliers and customers. Executives should examine their supply chain partners and the potential risks they pose as part of a **multidimensional risk assessment** and identify opportunities to leverage nearshoring, onshoring or friendshoring **supply chain strategies**. Positioning supply chains to support business growth and resilience in the medium to long term will require strategies that consider **sustainability and other ESG considerations** alongside geopolitical dynamics.

- 3. Explore opportunities in “friendly” markets.** The ongoing structural shift toward greater use of industrial policies amid a focus on economic self-reliance requires companies to **reassess their strategies**. International business models will persist in the emerging multipolar world, but they will need to adapt to new geopolitical realities. The most robust strategies will reflect the reality that geopolitical alliances are likely to impact business decisions as much as economic considerations in the years ahead. Executives should explore growth and investment opportunities in their home markets, as governments are likely to offer preferential financing, reduced tax rates or **other incentives** to onshore production in a variety of geostrategic sectors. Executives should also assess their home country government’s network of alliances and trade agreement

partners, as companies are likely to face lower levels of **geopolitical risk** in such “friendly” markets.

- 4. Align strategies with stakeholder priorities.** In the emerging era of stakeholder capitalism, companies should proactively manage dynamic political risks by developing an understanding of how they might impact stakeholders – and how **geopolitical developments** may shift stakeholder priorities and their expectations of companies. Executives can then create a growth strategy designed to fulfill stakeholder responsibilities. For instance, a company’s **sustainability and ESG strategy** can be designed to satisfy the demands of customers, employees, investors and policymakers – proactively mitigating the impact of potential future ESG regulations and compliance processes while driving **greater financial value**. At times the priorities of different stakeholders may diverge, though, complicating companies’ efforts. Executives should prioritize strategic actions that align with a broad set of stakeholder priorities and simultaneously unlock new business opportunities – such as an onshoring strategy to advance governments’ self-sufficiency goals while also leveraging **new technologies** and talent pools.
- 5. Conduct scenario planning.** Effectively navigating geopolitical uncertainty requires scenario analysis – the systematic exploration of multiple plausible futures. This is true for many of the individual developments highlighted

in the 2023 Geostrategic Outlook – including the war in Ukraine, China-Western decoupling and geopolitical swing states – and it is also true at the global macro level. In shaping their company strategy, executives should not rely on only one set of predictions about the **outlook for globalization**, as it may prove incorrect. They should instead assess the potential business implications and strategic imperatives of several alternative global operating environments, rather than trying to predict a precise outcome.

The importance of geopolitics to corporate strategies is at its highest level in a generation. Companies need to integrate geopolitical analysis into their corporate governance, business models and strategies. Executives should implement a more **systematic management of political risk** through transformed governance structures and processes. Importantly, this should include a regular assessment of how geopolitical developments affect current strategy and the proactive inclusion of political risk analysis in **M&A**, market entry and exit, supply chain and international footprint decisions. By embedding geopolitical analysis into a company’s DNA, executives will enable their companies to better account for political risks when making strategic decisions, giving them a crucial advantage vis-à-vis competitors in a turbulent geopolitical environment.

About the Geostrategic Outlook

The annual Geostrategic Outlook presents analysis by the [EY Geostrategic Business Group](#) (GBG) on the global political risk environment in the year ahead. The 2023 Geostrategic Outlook was published in December 2022.

The GBG defines political risk as the probability that political decisions, events or conditions at the geopolitical, country, regulatory or societal level will impact the performance of a company, market or economy. Importantly, this definition of political risk includes both challenges and opportunities for global organizations, creating an imperative to develop more strategic approaches to managing political risk.

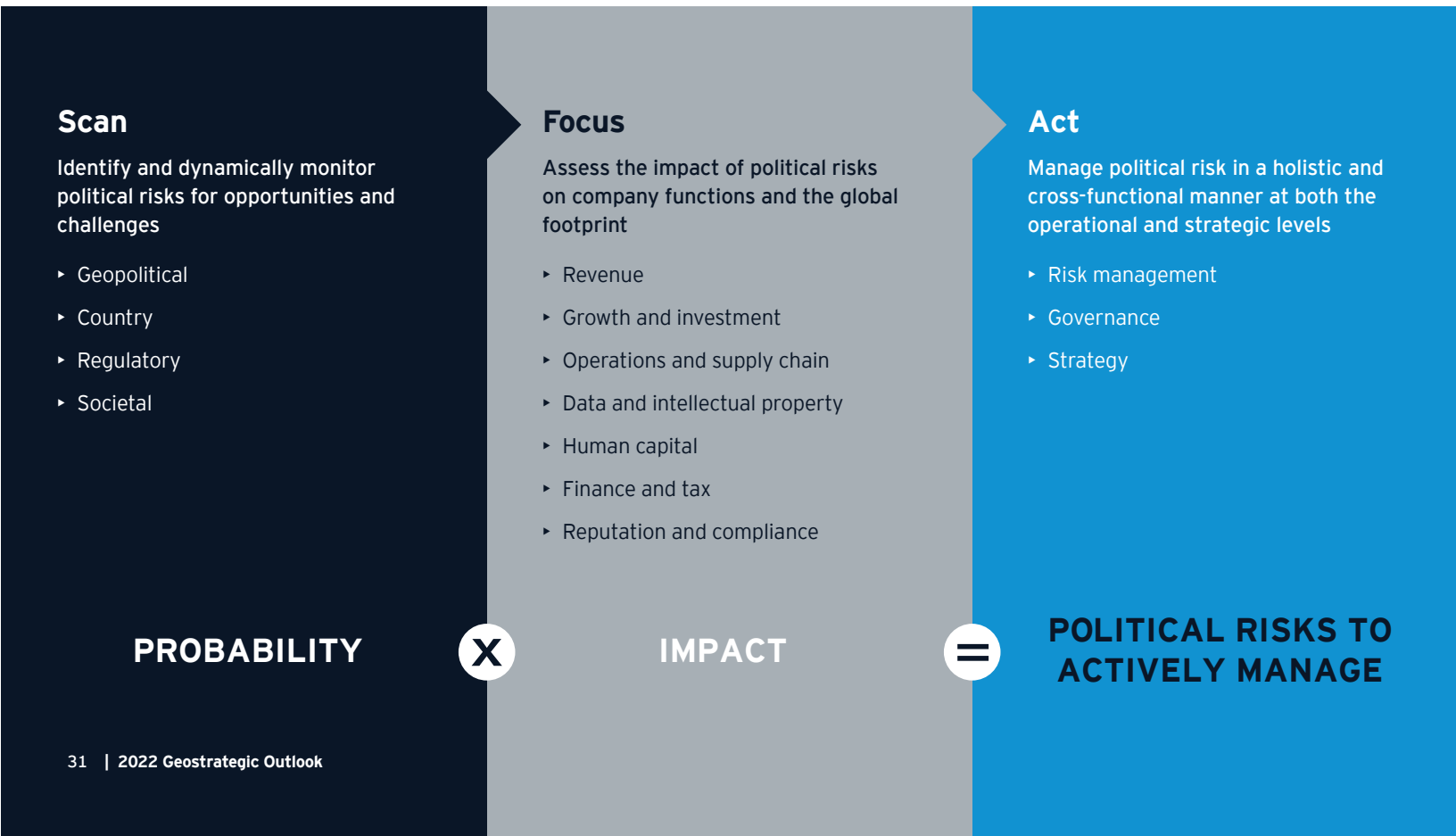
To select the top 10 geopolitical developments in the 2023 Geostrategic Outlook, the GBG first conducted a horizon scanning exercise to identify potential political risks. This scan encompassed the four categories of political risk in the geostrategy framework – geopolitical, country, regulatory and societal – throughout all regions of the world. The GBG then identified additional developments through engagement with dozens of subject matter resources across the EY global network, as well as political risk experts in other organizations. Scanning the external environment to identify political risks is the first step in implementing a geostrategy (see Figure 3).

Next, the GBG assessed all the identified political risks along two dimensions: their probability of occurring and the degree to which they would impact companies across sectors and geographies globally. This impact assessment is the second step in implementing a geostrategy. The top 10 geopolitical developments included in this Outlook are those that were assessed to be both high probability and high impact.

The analysis for each of the 10 developments in the 2023 Geostrategic Outlook highlights how the political risk is likely to unfold in the year ahead (the scan aspect of the geostrategy framework), assesses the impact of each political development on specific business functions (focus) and provides considerations for how executives can manage them (act). In addition, this Outlook includes analysis of the market themes and business implications across the 10 developments at the sector level. And it includes overarching geostrategic actions that executives can take to manage each geopolitical development in a strategic and proactive manner.

Executives who implement a geostrategy that addresses all of the top 10 geopolitical developments in the 2023 Geostrategic Outlook – as well as any other developments of particular relevance for their companies – are likely to be better positioned to build a geopolitically robust strategy for a volatile world.

Figure 3. Scanning the geopolitical environment for risks is the first step in implementing a geostrategy



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About EY Geostrategic Business Group

The EY Geostrategic Business Group (GBG) helps organizations translate geopolitical insights into business strategy. Geopolitics affect every global organization, from strategy to supply chain. Yet many companies struggle to assess and manage this disruption and the impacts it has on their business. The GBG harnesses local knowledge and collaborates with third-party firms to bring an added independent political risk perspective. With the breadth of our strategic and operational knowledge, EY teams develop actionable plans to help organizations better monitor, assess and manage political risks.

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