

# 2024 Geostrategic Outlook

How to thrive amid ongoing  
geopolitical complexity

December 2023



# The world in 2024

The late 2010s and early 2020s have been characterized by rising geopolitical tensions and significant policy shifts in key markets. Heading into the middle of the decade, the global environment will remain volatile and unstable. As executives seek to anticipate and plan for geopolitical disruptions, two key themes will be important to keep in mind in 2024.

The first theme is multipolarity. The geopolitical environment is increasingly likely to be upended in a variety of geographies and issue areas. The future of the relationships between the great powers (the US, EU and China) remains uncertain. Geopolitical swing states will expand their influence regarding the topics on the global agenda and how issues are addressed. Emerging and frontier markets will be increasingly vocal about what they perceive to be double standards of Western governments. And smaller actors – including both governments and non-state actors – are likely to assert themselves both locally and regionally.

This multipolarity is likely to reinforce existing economic diversification trends and the importance of supply chain resiliency. These trends will be driven in large part by heightened competition between geopolitical blocs or alliance networks. At the same time, multipolarity will likely continue to create challenges in global policy coordination, elevating the uncertainty and severity of any transnational crises that may emerge or expand as the year unfolds.

The second theme is de-risking. Building on trends in recent years, governments will continue to reengage in or expand their reliance on industrial policy to promote greater domestic manufacturing of critical products. This coupling of economic policy with foreign or national security policies will become more prevalent and overt in 2024. Governments will seek to reduce global dependencies, prioritizing national security (broadly defined) over purely economic considerations when designing and implementing policies.

The extent of de-risking policies and regulations will vary across sectors, with the greatest focus on products that governments deem to be strategic. Companies that produce semiconductors, telecommunications networks, renewable energy technologies, electric vehicles (EVs) and biotechnologies are among those that will face more government intervention in their supply chains and investment decisions. More broadly, these economic security policies could fuel inflation and hinder the global spread of innovation.

Multipolarity and de-risking will manifest in many ways throughout the year, with the most visible and impactful areas for business making our top 10 list of geopolitical developments in 2024. Most of them will not be wholly new but rather an evolution of developments from previous years (see Figure 1 on page 3). In fact, all but one of the top 10 developments in 2023 are expected to evolve into various aspects of the key developments in 2024.

The top 10 developments in 2024 will also be important signposts in anticipating how globalization is likely to evolve in the coming years. In the [future of globalization scenarios](#), EY analysis identified geopolitical relations and countries' economic policy stances as two key strategic uncertainties that will shape the global operating environment. The multipolar developments are likely to push the geopolitical environment toward more distinct blocs or networks of alliances. The de-risking developments point toward greater nationalist competition in economic policies, at least for strategic sectors, although in many cases these policies are organized around trading blocs. The outlook for 2024 is therefore a hardening of the trend in recent years toward a more fragmented global economy.



# Top 10 geopolitical developments in 2024

Click on each development number to read more.



There are two key themes for the top 10 geopolitical developments in 2024:



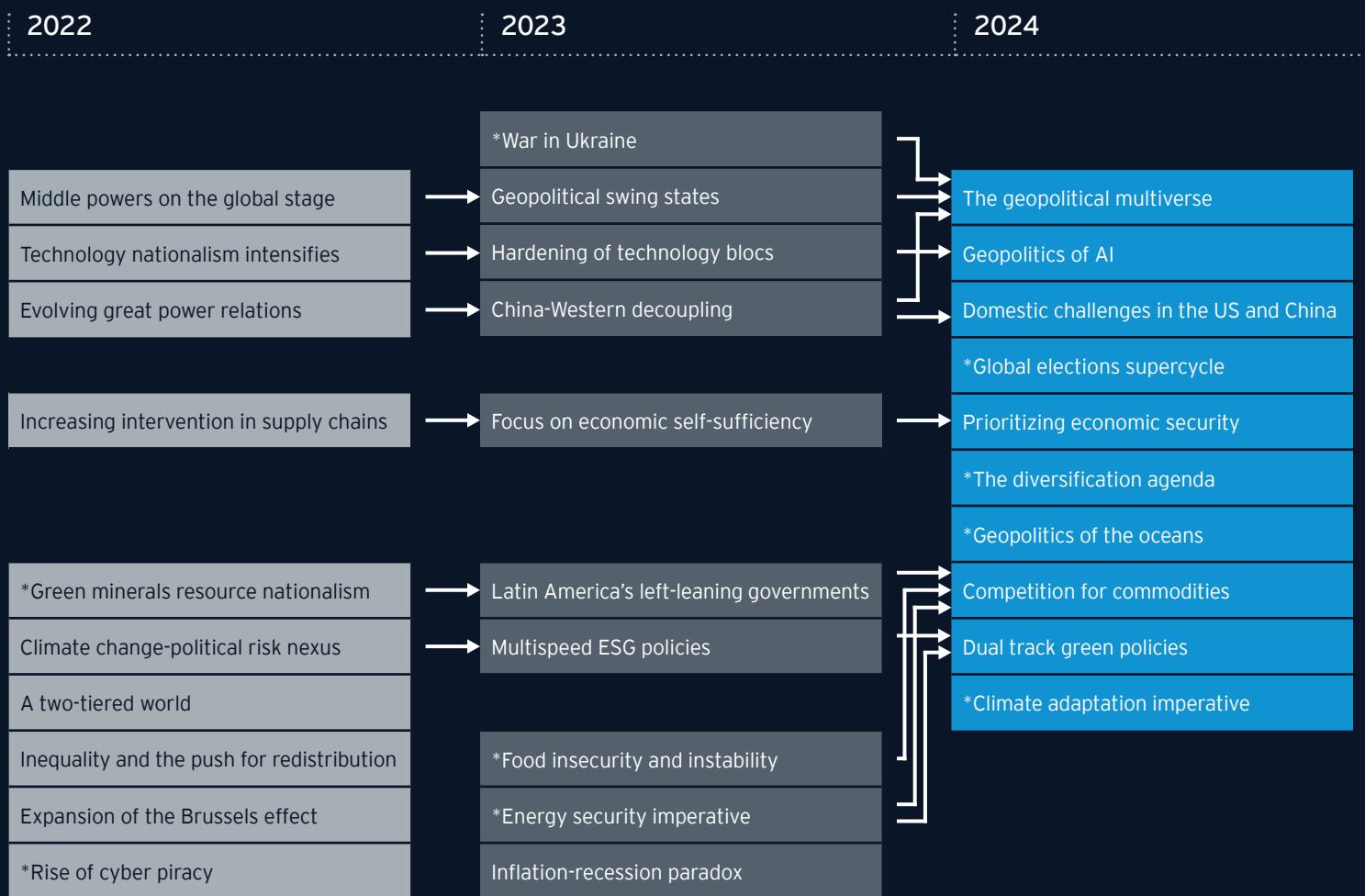
Multipolarity



De-risking

**Figure 1. Many of the top geopolitical developments in 2024 have evolved from prior years**

Top 10 geopolitical developments by year



Note: \* indicates a new development for the year.

Sources: EY Geostrategic Outlooks for 2022, 2023 and 2024

# Thriving amid the complexity

Multipolarity and de-risking will pose both challenges and opportunities for companies around the world. Each of the developments explored in the 2024 Geostrategic Outlook will affect companies in unique ways and will therefore necessitate specific geostrategic actions to capitalize on the opportunities they present while also mitigating the risks they pose. The type and level of impact will depend on a company's sector and geographic footprint and the strategic choices that its executives make. But there are three no-regrets geostrategic moves that executives across sectors and geographies should implement to develop a more strategic approach to managing the top 10 geopolitical developments.

## Build geopolitical considerations into business models and strategies.

In this era of profound change in the international system, the importance of geopolitics to corporate strategy is at its highest level in a generation. Successfully weaving geopolitical dynamics into corporate strategy will increasingly be a competitive advantage. Key actions to consider include:

- ▶ Realigning the company's global footprint and corporate strategy to fit a more complex, multipolar geopolitical landscape ([The geopolitical multiverse](#))
- ▶ Developing business models and technology strategies around artificial intelligence (AI) that account for different regulatory approaches across markets ([Geopolitics of AI](#))
- ▶ Factoring the internal challenges in the US and China, as well as their impact on other countries exposed to these two markets, into corporate growth forecasts ([Domestic challenges in the US and China](#))
- ▶ Conducting scenario analysis to explore the potential impacts of multiple upcoming elections worldwide ([Global elections supercycle](#))

## Increase the resilience of global supply chains.

Many companies' supply chains are exposed to geopolitical developments. Executives need to determine how they can better position their company's operating model and supply chain strategy to proactively adjust to increase their resilience to geopolitical disruptions. Key actions to consider include:

- ▶ Assessing whether parts of their supply chains are strategic to governments now or are likely to become strategic in the future and adapt their supply chain strategy accordingly ([Prioritizing economic security](#))
- ▶ Rethinking their companies' supply chain strategies and potentially expanding production capacity and supplier relationships in new markets ([The diversification agenda](#))
- ▶ Creating business continuity and other resilience plans to mitigate the potential impacts of maritime shipping insurance rate increases, shipment delays, or damaged cargos and vessels ([Geopolitics of the oceans](#))

## Adapt sustainability strategies to geopolitical realities.

Multipolarity and de-risking are influencing government approaches to policies regarding climate change and natural resources, which will affect companies' sustainability requirements, costs, competitive opportunities and strategy. Executives should incorporate new policies and regulations, as well as signals for how such policies may evolve in the future, into their sustainability strategies. Key actions to consider include:

- ▶ Analyzing current and future access to renewable energy and water in markets around the world, as well as the potential for public attention to companies' water and energy usage ([Competition for commodities](#))
- ▶ Incorporating policy-driven risks and opportunities into sustainability agendas, while staying ahead of the regulatory curve globally to satisfy the growing demands of customers, citizens and investors ([Dual track green policies](#))
- ▶ Exploring opportunities for investing in nature-based solutions and other adaptation initiatives, while also including climate change in location assessments and investment diligence ([Climate adaptation imperative](#))



# 1. The geopolitical multiverse



## Theme: Multipolarity | Action: Create geopolitically robust strategy

Mentions of geopolitics and political risk in companies' public documents skyrocketed 600% in 2022 and have remained elevated in 2023 (see figure 2). It's no wonder that executives are paying more attention to geopolitics in recent years than they had in the past. In 2023 alone, the war in Ukraine persisted, the BRICS and the G20 welcomed significant new members, Japan and South Korea restored bilateral diplomacy, and violence escalated in the Middle East. Geopolitics has become a multiverse of a more complicated mix of alliances and rivalries, with overlapping bilateral, regional and other types of institutions and groupings. **In 2024, the growing influence of geopolitical swing states and smaller players seeking to change the status quo will create a more complex geopolitical multiverse.**

Even as tensions among the US, EU and China continue to influence global dynamics, the actions of **geopolitical swing states** – countries that are not specifically aligned with any major power or bloc – will become more important drivers of geopolitics in 2024. Countries with resources across the energy value chain are likely to be particularly influential. Saudi Arabia and the UAE will play key roles in Middle Eastern geopolitics – including, importantly, relations with Israel. Turkey will continue efforts to mediate between Ukraine and Russia, as well as expanding its role in the Caucasus and the Middle East. India will partner more with the West on security matters, while continuing its economic relationship with Russia. And Brazil will seek to elevate Latin America's role on the global stage, particularly on environmental issues.

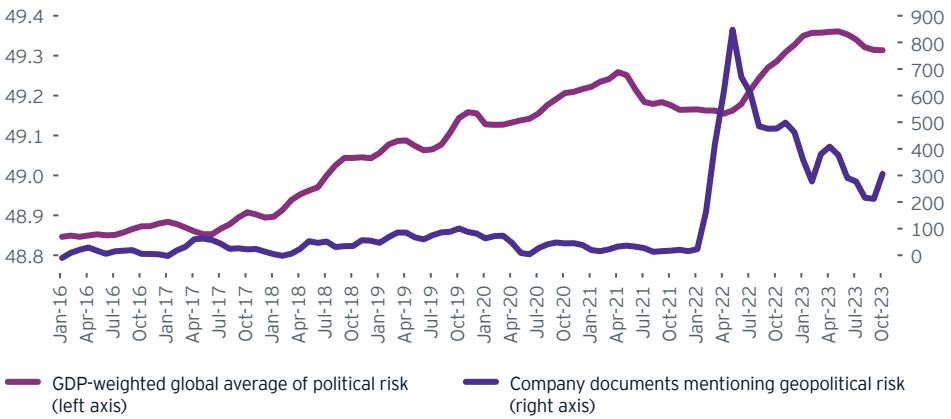
A variety of smaller countries and non-state actors are likely to continue to challenge the status quo in 2024, which could lead to more violent conflicts. This follows Azerbaijan's takeover of Nagorno-Karabakh and the surprise escalation of violence in the Middle East in 2023. For instance, the conflict in Sudan may escalate, and tensions between Kosovo and Serbia could continue to rise. And new security relationships, such as the 2023 **mutual defense pact** between Mali, Niger and Burkina Faso, could emerge. Diplomatic shifts are also likely, such as Kazakhstan seeking to strengthen cooperation with its neighbors in Central Asia and its relations with the West.

This multiverse of geopolitical relationships will also play out in international organizations. With Brazil as the 2024 host nation, the G20 is likely to remain focused on climate change, food security and other issues of importance to the Global South. The first **BRICS summit** with its expanded membership will occur in Russia, which could complicate members' geopolitical relations with the US and EU. Although expanded membership will make consensus more difficult, these relatively small groupings will remain the leading international forums since coming to agreement in larger forums such as the UN is becoming even more challenging.

Overlapping organizations, groupings and creative coalitions will emerge on different issues. For instance, India and China will collaborate to elevate the status of the BRICS even as India tries to reduce its economic ties with China and their border disputes persist. And while the US and Saudi Arabia will remain security partners, tensions between Washington and Riyadh about global oil supplies will likely continue. This geopolitical multiverse will lead to more volatility in diplomatic and economic relations in the year ahead.

**Figure 2. Corporate attention to geopolitics has waned somewhat even though risks remain elevated**

GDP-weighted global average of political risk; mentions of geopolitical risk in companies' event transcripts



**Note:** The terms included in the count of company event transcripts include geopolitical risk(s), geopolitical, geopolitics and political risk(s). This data is presented as a rolling three-month average.

Sources: GeoQuant, from BMI, a Fitch Solutions Company; Alphasense.

## Recommendations for business

► **Prepare for a dynamic sanctions environment.** The geopolitical multiverse is likely to lead to the US and EU to increasingly focus on compliance with their sanctions on Russia, particularly in third-party countries. And given concerns about Iran's role in the ongoing violence in the Middle East, the US and others may strengthen enforcement of current sanctions on Iran or impose new ones. This dynamic sanctions environment could further increase the cost of oil and gas globally. It will also create compliance challenges for many companies. Executives should ensure their [compliance teams](#) have sufficient monitoring and execution resources to avoid running afoul of sanctions.

► **Adapt corporate treasury strategies.** As the world moves from a more unipolar to a more multipolar system, international transactions are following suit. The share of US dollars in central banks' currency reserves hit 59% at the end of 2020 (its lowest level in 25 years) and has since remained near that share [according to the IMF](#). The Chinese renminbi is already used for a majority of China's cross-border trades, according to [Nikkei Asia](#), and other emerging markets are encouraging the use of their own currencies as well. Companies need to take these evolving foreign exchange dynamics into account when [planning their treasury holdings](#) and managing exchange rate risk.

► **Elevate cybersecurity risks and strategies.** In the geopolitical multiverse, tensions are likely to play out in [cyberspace](#) as well. These "gray zone" activities are attractive because they target data and digital systems, offer a degree of anonymity or deniability, and do not have clear consequences or terms of engagement. Some companies – particularly those in highly strategic sectors – could be the target of state-sponsored cyber attacks. More broadly, companies could be negatively affected by attacks on governments or critical infrastructure such as electrical grids. Executives should evaluate cybersecurity risks across their company's value chain and invest in [cyber resilience](#).

## Sectors directly affected

- Advanced manufacturing and mobility
- Energy and resources
- Financial services
- Government and infrastructure
- Health sciences and wellness
- Technology, media and telecommunications

## 2. Geopolitics of AI

### Theme: Multipolarity | Action: Create geopolitically robust strategy

The EY CEO Outlook Pulse study in October 2023 found that 99% of CEOs are planning to invest in AI. Meanwhile, governments have been grappling with how best to regulate AI and may do so in divergent ways. In 2023, China introduced several AI-specific regulations; the G7 agreed a set of AI Principles and a Code of Conduct; the EU advanced negotiations on the AI Act; and the US Biden Administration issued an executive order on [AI safety and security](#). Technological advances in AI have also increased its importance to national security and geopolitical competition. **In 2024, the dual races to innovate and regulate AI will accelerate the shift toward distinct geopolitical blocs.**

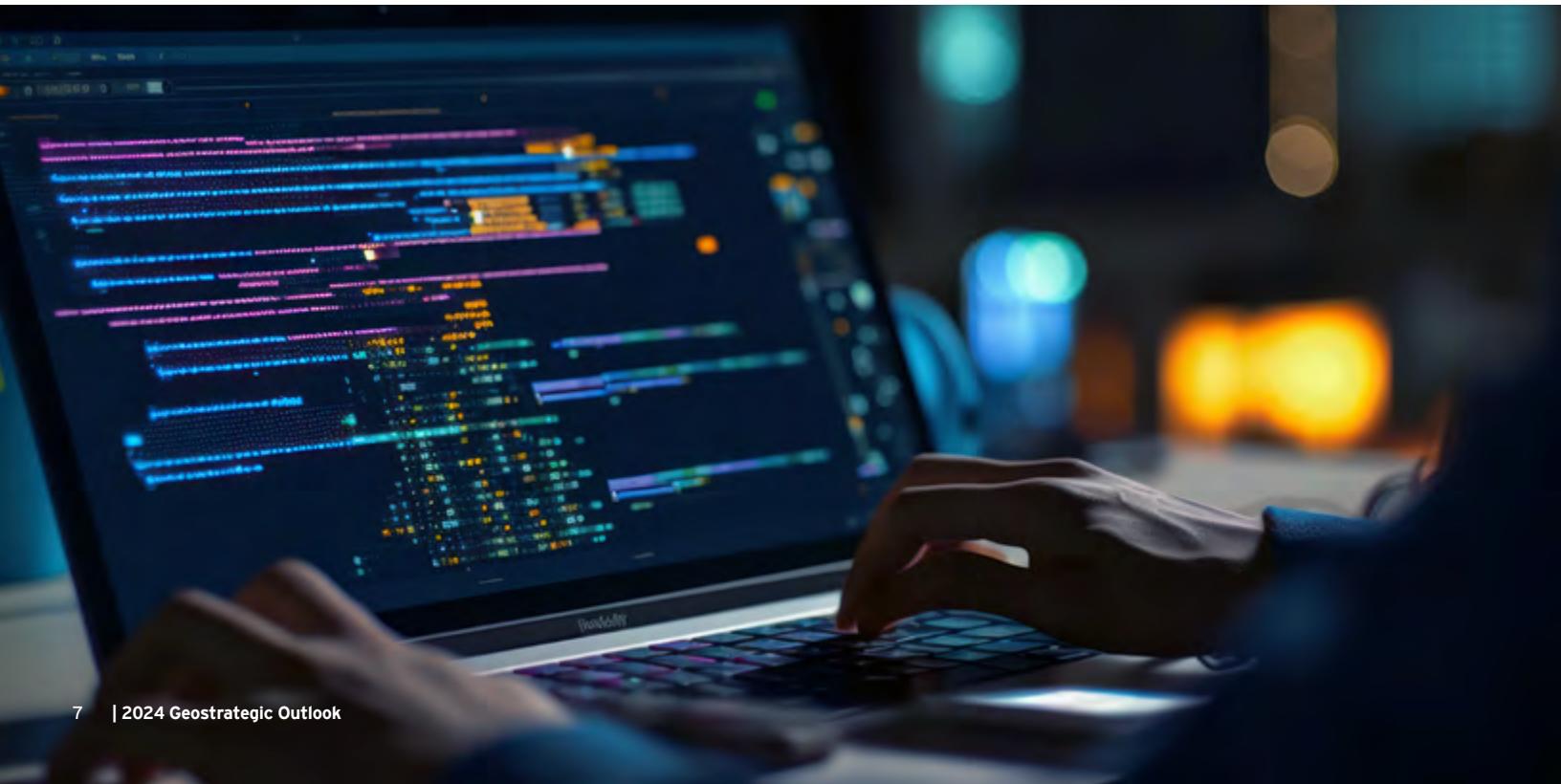
Geopolitically, the race is on to innovate and scale AI within domestic economies. The US is currently in the lead, but several other countries are poised to accelerate their efforts in different ways (see figure 3). Most notably, China will continue to invest in research to try to achieve self-sufficiency in AI. The UK will keep regulation to a minimum to try to foster innovation and extend its recent record of attracting the third-most [AI investment](#) globally. And Saudi Arabia will continue purchasing cutting-edge technologies to develop its [AI industry](#).

AI will be an important dynamic in US-China relations. The US – sometimes in collaboration with allies – will use export controls and investment restrictions to limit Chinese companies' access to the advanced semiconductors needed as hardware for AI systems. This “[small yard, high fence](#)” strategy will likely lead to China limiting access to other parts of the AI value chain – including critical minerals, some of which are already subject to [export controls](#).

Domestically, governments are in a different race – to regulate AI before the technology outpaces policymakers. On the one hand, governments want to foster innovation to compete geopolitically while also capturing the promise associated with AI, such as improved health care outcomes, advancements in national security and enhanced economic productivity. On the other hand, governments will try to design AI regulations to reduce the likelihood of macro risks such as the potential for social and economic dislocations as AI performs more job functions, increases in political instability due to misinformation campaigns, and heightened national security and cybersecurity risks.

At the international level, the recent [Bletchley Declaration](#) provides the basis for broad-based consensus building on efforts to ensure AI is trustworthy and responsible. Nevertheless, the [G7 Hiroshima AI process](#) will likely remain an important forum for coordinating regulatory and technological approaches – although the EU will take a more comprehensive approach than the rest of the G7, as highlighted by the [EY AI Global Regulatory Landscape](#) study. In contrast, China's AI ecosystem will likely remain a domestic affair, at least in the short term.

The outcome of dual geopolitical and regulatory races in AI will be to further harden technology blocs, a top development in the [2023 Geostrategic Outlook](#). One of the key near-term arenas of competition will be access to data for use in large language models (LLMs). While AI will not reshape the global balance of power in the next year, it will become an increasingly important arena of geopolitical competition. And it could be wielded as a tool of misinformation in geopolitical rivals' elections.



## Recommendations for business

- ▶ **Strengthen cross-border data and technology governance.** The AI Principles, adopted by the Organization for Economic Cooperation and Development (OECD) and G20 in 2019, and the recent Bletchley Declaration, will continue to serve as guidelines for governments. But globally interoperable regulations on AI will not be developed in 2024. This will complicate data management, AI implementation and regulatory compliance. Executives need to understand the core principles underlying AI rules – and how they interact with existing regulations. As [EY teams have previously suggested](#), companies should establish robust AI governance frameworks to both ensure compliance with existing regulations and to build confidence among regulators and other stakeholders in their AI applications.
- ▶ **Identify opportunities to test and scale AI.** Many governments are seeking greater AI investment and innovation in their economies. And some governments will establish new “regulatory sandboxes” to enable companies to test new AI applications in a controlled environment. According to EY research, only [8% of organizations](#) are currently using AI to drive innovation, while 91% are using AI primarily to optimize operations, develop self-service tools like chatbots, or automate processes. This gap provides a strategic opportunity for companies to [use AI to innovate](#) on products and business models, particularly in markets in which regulators encourage such activities.

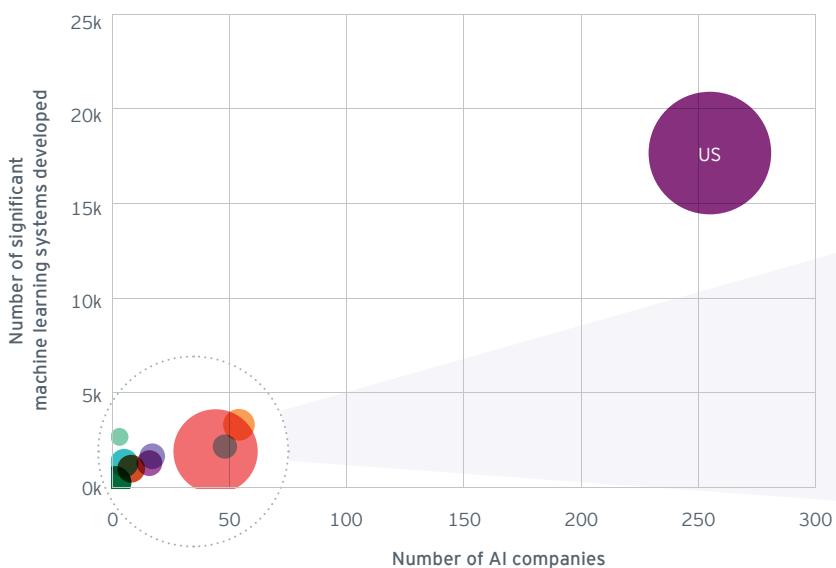
▶ **Engage in AI talent planning and training.** As with any significant technological change, AI will create human capital opportunities and challenges – the potential downsides of which policymakers are concerned about at an economy-wide scale. Executives should engage with policymakers on this issue to identify shared solutions. Companies also need to [manage this change](#) through communicating more effectively with their employees about the planned business applications of AI and investing in training for current talent. The [EY Work Reimagined 2023](#) study found there is currently a disconnect on this issue, as only 49% of employees already are or expect to be using GenAI in the next 12 months, compared to 84% of employers.

### Sectors directly affected

- ▶ Financial services
- ▶ Government and infrastructure
- ▶ Health sciences and wellness
- ▶ Private equity
- ▶ Technology, media and telecommunications

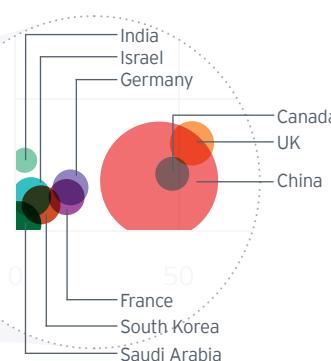
**Figure 3. The race to fund and develop AI systems is highly competitive and geopolitically significant**

Select AI industry indicators by country



Note: The size of the bubble represents the total funding (public and private) for AI. Many other countries have AI capabilities. Only the 10 leading countries across these three indicators are shown.

Source: Tortoise Global IA Index, <https://www.tortoisemedia.com/intelligence/global-ai/#data>



# 3. Domestic challenges in the US and China

## Theme: Multipolarity | Action: Create geopolitically robust strategy

For different reasons, the world's two largest economies are facing significant domestic challenges. In the US, political polarization is challenging basic governance functions, including debt management and passing a budget, which led to a [downgrade in its sovereign debt rating](#) in 2023. In China, the challenges stem from macroeconomics and associated policymaking. **These challenges in China and the US will continue to heighten political risks within each market and could have knock-on effects for geopolitics and global growth in 2024.**

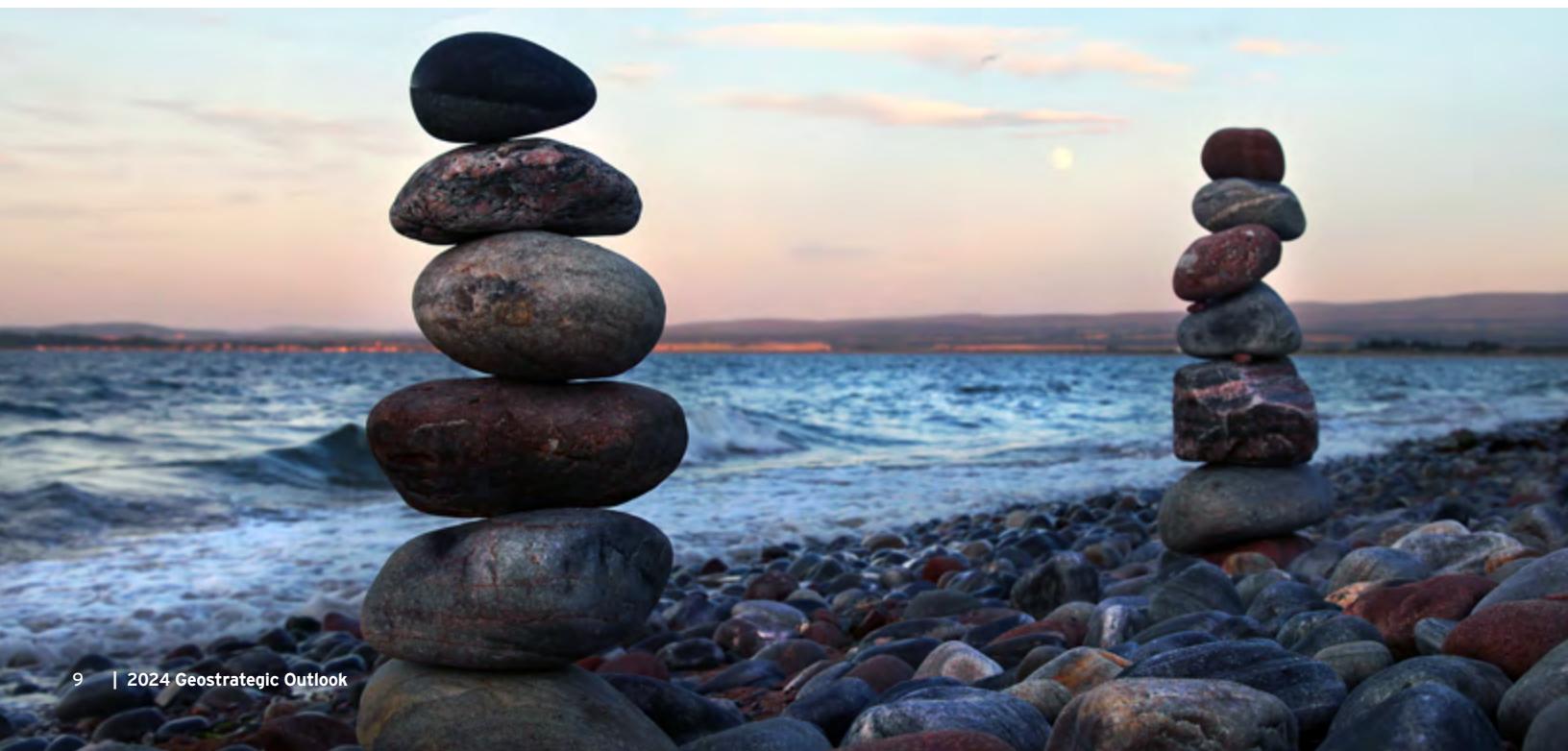
In the US, the 2024 election will heighten societal tensions and policy uncertainty. A split in control of the House and Senate, coupled with narrow majorities in both chambers, means Congress will likely face challenges in passing necessary legislation. And the partisan divide in Americans' trust in different news sources, as [analyzed by YouGov](#), raises the risk that some segments of the population could question the legitimacy of the election – which would perpetuate policymaking challenges.

Legislative stasis at the federal level means the administration will drive its priorities through the executive branch, and individual states will continue to enact divergent laws and regulations to address emerging issues or advance particular political agendas. This phenomenon will occur at both ends of the political spectrum – including, for instance, Republican-led states pushing back on ESG investments and Democratic-led states implementing stricter environmental rules. Regulatory fragmentation is also likely on AI and health care issues.

China will face a different challenge, stemming from whether the official policy mix will effectively address any financial and macroeconomic weaknesses that arise. The cyclical challenges in the real estate market and high municipal government debt levels will likely persist. In response, policymakers will likely introduce periodic, targeted actions to reduce the risk of financial crisis. Policymakers may also introduce additional incremental reductions in banks' [reserve requirement ratios](#) and targeted measures to support the export sector, amid cyclical weakness associated with [lower global demand](#).

Chinese policymakers will also face a structural challenge associated with adapting household and business expectations to a new growth environment. China has transitioned from average annual economic growth of 7.7% during the decade leading up to the COVID-19 pandemic to an economy that grows around 5% per year (the [official target](#) for 2023). Beijing will continue to prioritize national security and domestic stability over economic growth, with policies to accelerate the development of domestic advanced manufacturing capabilities, particularly in strategic technologies.

Domestically, 2024 will likely be an inflection point for both countries. How these risks evolve will have significant implications for their medium-term trajectories and for the global economy (see figure 4). And geopolitically, although their bilateral meeting on the sidelines of the Asia Pacific Economic Cooperation (APEC) summit in November 2023 may establish a floor, the US-China relationship could suffer as Washington and Beijing focus on tackling domestic challenges and responding to domestic pressures. How US-China relations evolve will affect global geopolitical and economic dynamics.



## Recommendations for business

### ► Plan for uncertain sales and revenue forecasts.

Companies' short-term global sales and revenue forecasts will be considerably more challenging given the economic uncertainties in the US and China. And given the systemic role of these two markets in the global economy, forecasting challenges will likely affect many other markets as well. Downside risks in both markets could lead to weaker global economic performance than expected. Given the highly fluid nature of these risks, executives should consider utilizing [scenario planning](#) for both short-term and medium-term forecasting efforts.

### ► Elevate compliance and reputational issues.

The regulatory environments between China and the US will likely continue to diverge, particularly regarding data and digital technologies. Adding to the complexity is the increasing regulatory divergences among US states. Both trends are likely to raise compliance costs – and, in some cases, reputational issues – for companies operating across different borders in a variety of sectors. Companies should determine whether their [compliance capabilities](#) are robust enough for this environment. And executives should consider compliance dynamics when making strategic decisions.

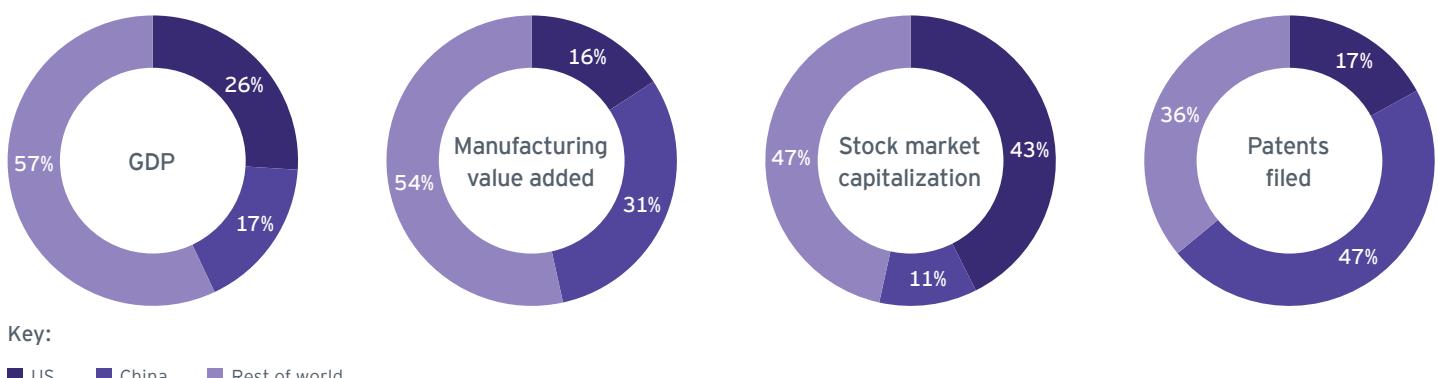
► **Consider adjusting risk strategies.** The two largest economies in the world are facing some uncertainty in their outlooks, which could have business implications for companies across sectors in the near and medium terms. Companies should prioritize their monitoring capabilities for political and economic risks in these markets and consider opportunities associated with new risk mitigation activities.

## Sectors directly affected

- Advanced manufacturing and mobility
- Consumer products and retail
- Government and infrastructure
- Health sciences and wellness
- Technology, media and telecommunications

**Figure 4. China and the US combined represent about half of some global economic activities**

Share of China and US in the world, selected indicators



**Note:** The data are the latest available indicators, as of October 2023. GDP is measured in US dollars at market exchange rates.

**Sources:** International Monetary Fund, World Bank, World Federation of Exchanges, World Intellectual Property Organization.

# 4. Global elections supercycle

## Theme: De-risking | Action: Create geopolitically robust strategy

A wave of elections in geopolitically significant markets representing about 54% of the global population and nearly 60% of global GDP will occur in 2024 (see figure 5). These elections will be held amid already heightened mistrust in governments, as documented by the [Edelman Trust Barometer](#). Such dynamics, combined with nationalist and populist trends and polarizing issues, increase the risk of social unrest surrounding elections. **This global elections supercycle will generate regulatory and policy uncertainty, with long-term implications for industrial strategies, climate policies and ongoing military conflicts.**

The biggest election will be in India in May and June, when citizens representing 1.4 billion people will vote. Prime Minister Narendra Modi's Bharatiya Janata Party (BJP) will face a new opposition alliance of more than 20 parties. The election debates are likely to revolve around economic policies and nationalist attitudes. Whether the next government has a majority in parliament will determine the speed and scope of policies supporting India's infrastructure and manufacturing sectors.

Elsewhere in Asia, the outcome of Taiwan's January presidential election will affect economic and political relations with Mainland China and broader geopolitical dynamics. Indonesia's elections in February have heightened global significance given its role in the critical minerals supply chain. And South Korea's legislative elections will determine whether President Yoon Suk Yeol will have greater ability to secure labor market and regulatory reforms.

In Europe, the citizens of the 27 EU member states will vote in June [European Parliament](#) elections. The outcome will impact EU policies for climate regulation and migration, support for Ukraine, and its China "de-risking" strategy. The UK is likely to hold parliamentary elections (due by January 2025), which may affect post-Brexit trade matters, energy transition policies and taxation. Both Ukraine and Russia are scheduled to hold presidential elections in 2024, although the ongoing war may cause delays or irregularities.

And in Africa, South Africans will vote in general elections in the second quarter, amid longstanding concerns over corruption, economic opportunities and infrastructure challenges. Senegal, Rwanda, Mozambique, Botswana, Ghana and South Sudan are among the other African countries with elections scheduled – many of which are likely to be closely watched for indications of regional stability.

In the Americas, Mexican voters will [decide](#) between the ruling Morena party and the opposition alliance, Frente Amplio por México (FAM), in June. The next government will impact the direction of the country's energy policies and influence foreign investment attractiveness amid nearshoring and friendshoring trends. And in Venezuela, the extent to which opposition candidates are able to participate in its May presidential election will impact its diplomatic and commercial relations.

In November, the US will hold one of the last elections of the 2024 global elections supercycle. Campaign dynamics could exacerbate an already polarized electorate and increase volatility for businesses during the election cycle. The outcome of the elections could lead to far-reaching shifts on domestic and foreign policy issues, including on climate change, regulations and global alliances.



## Recommendations for business

### ► Conduct scenario planning for election and policy outcomes.

The combined effect of this global elections supercycle will be an unprecedented level of electoral, policy and regulatory uncertainty. The global elections supercycle also poses elevated [sociopolitical](#) and security risks associated with protests, which have the potential to disrupt business operations and create reputational risks in some markets. Successfully navigating these dynamics requires scenario analysis, which is the identification of multiple plausible outcomes and assessing their business implications from revenue to operations. Once potential scenarios are identified and exposures are understood, executives can adjust strategy and risk management activities to capture identified opportunities and limit downside risks.

### ► Assess sales and growth implications of economic policies.

The political, economic and business environments will be more volatile as a result of the 2024 global elections supercycle. Heightened voter concerns about inflation and economic growth mean many new governments are likely to have economic policy at the top of their agendas. Shifts in [tax policy](#) could occur. Other new policies may create sales and growth opportunities, but such policies are likely to be framed within economic security objectives (see development #5), and so some opportunities may be limited to companies from a government's domestic market and its allies. Executives should assess how new governments' policies will affect opportunities and challenges in their sector.

### ► Incorporate elections in climate and sustainability strategies.

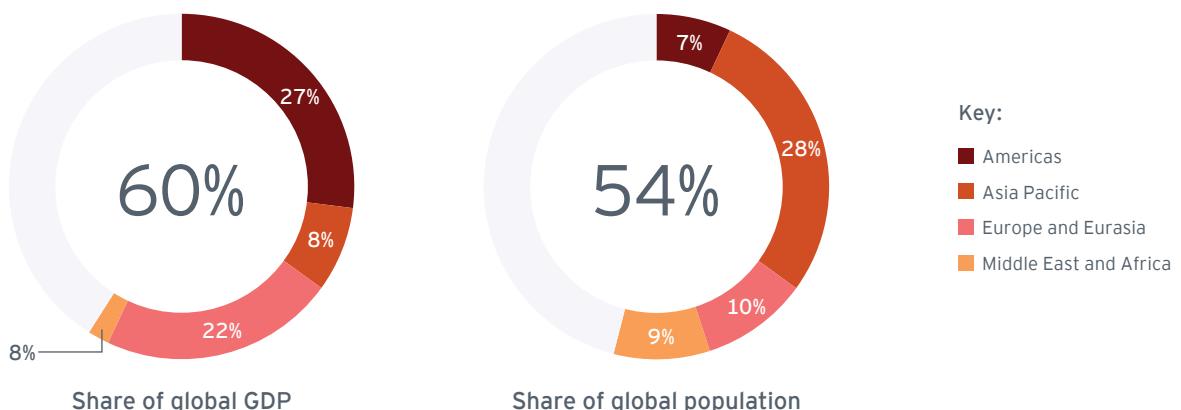
Climate policy and regulatory uncertainty is inherent in a number of the 2024 elections. Any such changes – toward either more or less ambitious emissions reductions – would likely have meaningful impacts on business operations, finance, compliance and strategy for companies across multiple sectors. Companies should monitor the potential outcomes and stakeholder interests in key markets and prepare to assess climate strategies once the post-elections outlook becomes clear.

## Sectors directly affected

- Energy and resources
- Government and infrastructure
- Technology, media and telecommunications

**Figure 5. Jurisdictions with elections in 2024 account for more than half of global GDP and population**

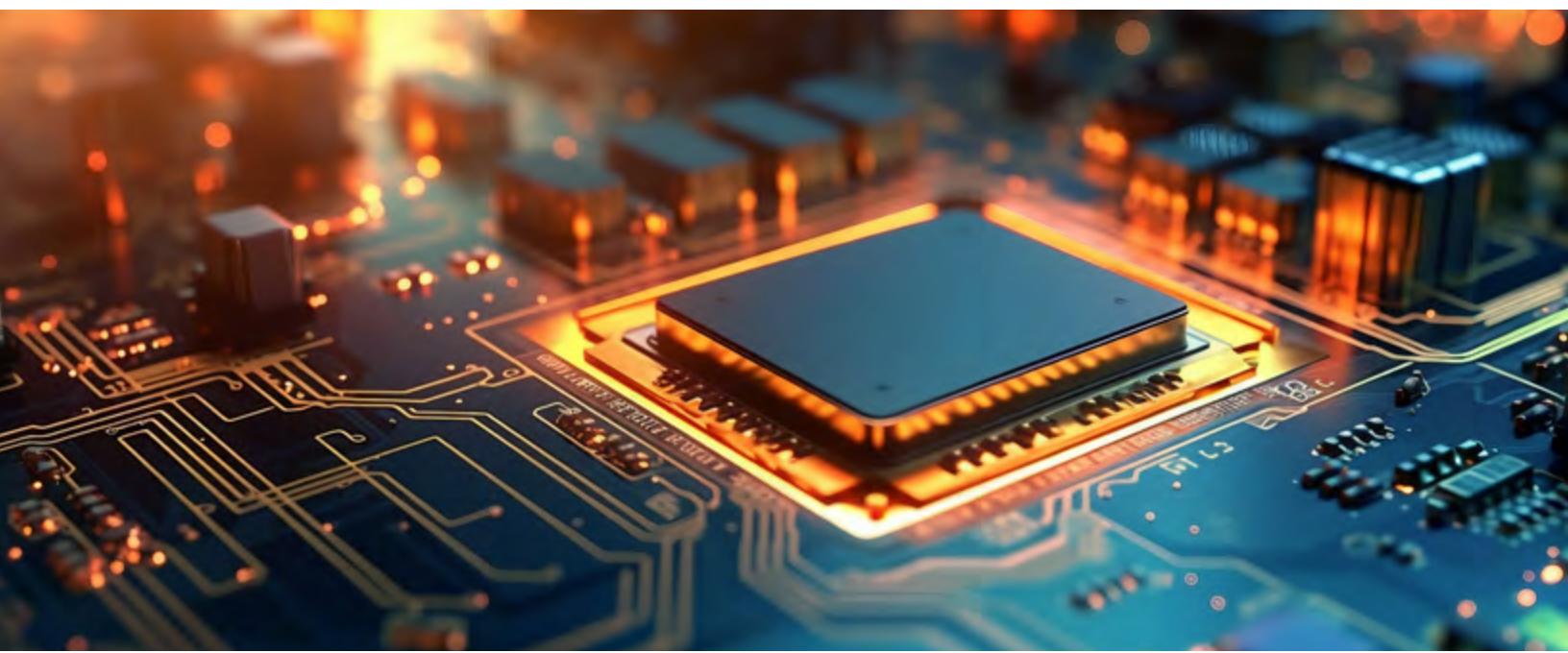
Shares of global GDP and population of jurisdictions with elections in 2024, by region



Note: These figures include jurisdictions for which elections are planned for 2024 but no date has yet been set.

Sources: World Bank, International Foundation for Electoral Systems.

# 5. Prioritizing economic security



## Theme: De-risking | Action: Increase supply chain resilience

Global developments in recent years have highlighted interdependencies among geopolitical rivals, leading to a [rise in neo-statism, increasing intervention in supply chains](#) and a [focus on economic self-sufficiency](#). In 2023, these trends gained momentum with the US Executive Order proposing outbound investment restrictions, China's Foreign Relations Law and the EU's economic security strategy. According to [Global Trade Alert](#), the number of trade interventions has increased by nearly 180% in the past five years, with almost four times more harmful interventions than liberalizing ones. **In 2024, economic security measures to "de-risk" global interdependencies will be a prime tool in geostrategic competition.**

Economic security policies will be motivated by three objectives: reducing reliance on geopolitical competitors, promoting domestic industry competitiveness and supporting domestic sociopolitical stability. While governments of most large economies will pursue these objectives, the tactics will vary, including trade and industrial policies and gray zone economic coercion (i.e., informal restrictive measures used against foreign companies). The [G7 countries](#) and China will continue to create the legal foundations of their economic security policy toolboxes, including investment screening, export controls and anti-coercion measures (see figure 6). Middle powers such as India and Indonesia will primarily rely on industrial policy.

The more a sector is viewed as "strategic" by the government, the more economic security policies will impact that sector and its supply chains. Highly strategic sectors include aerospace and defense and advanced digital technologies and data, especially dual-use technologies such as semiconductors, AI and quantum computing.

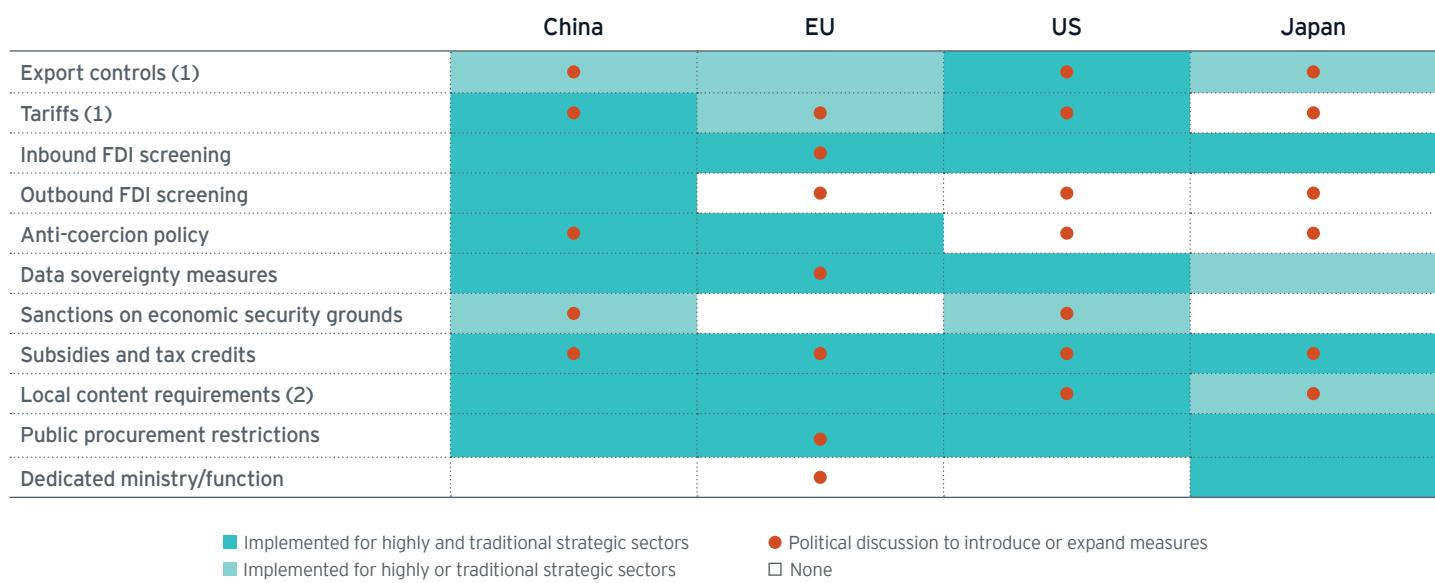
These sectors will face stringent economic security policies, including export controls, entity lists and investment screening. In 2024, the EU will seek to expand and harmonize export controls for dual-use technologies and the US will introduce outbound investment screening and could expand export controls on China.

In traditional strategic sectors, such as critical infrastructure and energy, governments will employ a combination of controls and incentives to promote or protect domestic production while forging new partnerships to secure supply chains. De-risking in the energy sector will continue to focus on energy transition inputs and technologies, including critical minerals, high-capacity batteries and electric vehicles (EVs). Continued implementation of economic security policies in this sector will likely increase the almost 70% of Chinese and more than 50% of US exports of low carbon technologies covered by export controls in 2023, according to the [G20 Trade Policy Factbook](#). The EU's anti-subsidy investigation into EVs imported from China will proceed and will likely lead to a response from Beijing. In addition, China, Indonesia and others may expand export controls on critical minerals or solar panels.

And finally, governments will increasingly focus on emerging strategic sectors in 2024, including health care and agriculture and food. Policies will aim to enhance resilience to supply chain disruptions. For instance, India will double down on its [production linked incentive scheme](#) for active pharmaceutical ingredients (API), and the [EU's pharmaceutical reform](#) could mandate monitoring of supply chains and stockpiles. And China will likely take further measures to enhance its food security.

## Figure 6. Economic security policies are widespread and are continuing to expand

Official policy measures related to economic security, select jurisdictions



**Notes:** 1) Trade measures targeting goods and sectors considered strategic in the context of economic security; 2) requirements used as a condition to access subsidies and tax credits

Source: EY Geostrategic Business Group analysis

## Recommendations for business

► **Prepare for supply chain disruptions and higher costs.** Economic security policies are likely to affect where companies, particularly in strategic sectors, can locate their operations and supply chains. Policies are likely to continue to induce companies to reorient parts of their supply chains and reassess their presence in certain markets, which could lead to higher costs and reduced revenues. These policies could also complicate access to technology and talent, especially in highly strategic sectors. Companies will need a detailed understanding of their value chain and where economic security risks could arise. Executives should assess whether parts of their supply chains are considered to be strategic and adapt their [supply chain strategy](#) accordingly.

► **Anticipate geopolitical impacts on mergers and acquisitions (M&A).** Economic security policies will continue to affect the viability of cross-border transactions, which could be directly impacted by government policies, tit-for-tat political decisions or informal restrictions against certain companies. Inbound and outbound investment screening measures will be particularly impactful for [M&A strategies](#). Executives should assess the geopolitical relationship between countries in which they operate and whether their planned M&A touches national security concerns in order to anticipate potential regulatory delay or rejection of transactions.

► **Identify investment opportunities in strategic sectors.** Governments will implement industrial policies to incentivize or mandate local research, development and production in strategic sectors. This trend will be widespread, including in geopolitical swing states such as Brazil, India and Indonesia. Companies will have an opportunity to take advantage of related tax breaks, subsidies and state-guaranteed investments. Executives should identify and [assess opportunities](#) associated with these enabling policies – while taking into account geopolitical dynamics and alliances when assessing the viability of entering or expanding in particular markets.

### Sectors directly affected

- Advanced manufacturing and mobility
- Energy and resources
- Financial services
- Government and infrastructure
- Health sciences and wellness
- Private equity
- Technology, media and telecommunications

# 6. The diversification agenda

## Theme: De-risking | Action: Increase supply chain resilience

In the July 2023 [EY CEO Outlook Pulse](#) survey, 99% of CEOs said they plan to reconfigure supply chains, relocate operational assets and make other strategic changes in response to geopolitical challenges. These challenges include tensions between governments in key markets and government policies that mandate or incentivize diversifying value chain locations, including through onshoring, nearshoring and friendshoring. **This value chain diversification will pose both upside and downside political risks in 2024 for companies entering or expanding in alternative markets.**

Heightened levels of geopolitical risk will remain one of the primary drivers of diversification in 2024. While investment will continue to flow to developed markets – the top two recipients of [foreign direct investment \(FDI\) in Europe](#) in 2022 were France and the UK, for example – the [geopolitical swing states](#) that maintain economic and geopolitical relations with all major powers are likely to be central to the diversification agenda. For example, the value of FDI in India and Indonesia jumped in 2022 (see figure 7). Vietnam will likely continue to attract manufacturing investment. Mexico, which became the US's [largest trading partner](#) in 2023, will remain a key nearshoring investment destination for the US market. As diversification continues, other markets – such as Turkey, Costa Rica and Morocco – could attract more investment as well.

A variety of country-level political risks will influence the diversification agenda. On the upside, government incentives will drive some diversification decisions. India's production-linked incentives and import license requirements will likely induce more manufacturing investments, including in semiconductors. New economic security incentives in Japan will also draw in investments for advanced technologies and domestic manufacturing. Tax

incentives will also be used to advance governments' own investment priorities, such as in Morocco and Mexico.

On the downside, transportation infrastructure, access to electricity and talent dynamics could pose risks. For example, infrastructure quality in many Southeast Asian countries is far below that of China's, according to the [Economist Intelligence Unit](#). And [International Labor Organization](#) data shows that only 22% of India's labor force has an advanced degree, compared to 37% in China. Consistently low unemployment could also make acquiring talent increasingly challenging in Mexico, Poland, Vietnam and elsewhere. And the "higher for longer" global interest rate environment could heighten government financing and economic risks in some markets.

Sustainability will have a more mixed impact on the diversification agenda, given the trend toward carbon taxes and emissions reporting requirements. Incentives from the US Inflation Reduction Act and EU Green Deal will provide companies with new opportunities across green industries in these markets. More broadly, shifting supply chains closer to end consumers could reduce emissions through shorter transport networks. However, the lack of renewable energy in some geographies could heighten sustainability costs and risks. For instance, less than 15% of the energy supply in Mexico and Poland comes from renewable energy, according to the [International Energy Agency](#).

The 2024 elections supercycle will raise the level of policy uncertainty in a variety of markets. In India, whether the government will relax labor laws, advance infrastructure investment and reform land acquisition remain key questions. Indonesia's next government may change policies affecting the country's critical minerals industry. Energy policy will be a key agenda item for Mexico's next president.



## Recommendations for business

- ▶ **Reassess global supply chain strategies.** Realigning and diversifying supply chains will require assessing both global and local political risks, as well as determining whether to vertically integrate manufacturing versus expand supplier ecosystems. For example, companies should reassess their sourcing and supply chain [strategies](#), including ways to gain greater control and access to critical raw materials and localizing supply chains where possible to align with growing sustainability objectives. In fact, a top determinant of choosing a market in which to invest is policy approaches to climate change and sustainability, according to the [2023 EY Europe Attractiveness Survey](#). Companies should also assess their current capabilities to oversee more complex supply chains and evaluate whether further investments in the [compliance function](#) are needed.
- ▶ **Evaluate and rationalize political risk profiles before diversifying.** Companies' diversification agendas will include market entry and investment decisions that will change their [political risk profiles](#). Boards and management may have little experience in new markets, so companies should adopt robust procedures to evaluate new markets, including geopolitical dynamics, domestic political stability and regulatory trends. Such processes should include analyzing new political risks to which the company would be exposed, the policy incentives the company would be able to access if it entered or expanded in the market, and how such decisions would change the companies' overall political risk exposure.

- ▶ **Monitor a wide array of markets for growth opportunities.** Government incentives related to advanced manufacturing, technology and the energy transition will create investment opportunities for companies in many markets around the world. In many cases, these investments will be accompanied by infrastructure, logistics and other services evolving to meet the demands of new manufacturing footprints. All of this will have positive spillover effects for consumer spending and macroeconomic growth. Executives across all sectors should refresh their [corporate and growth strategies](#) to account for these changes and seek to capture emerging opportunities.

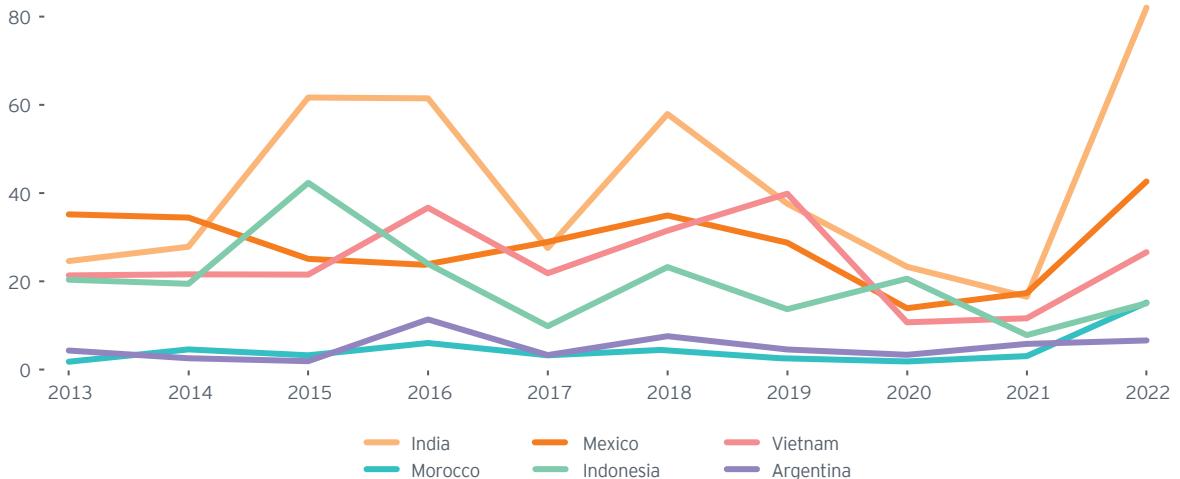
### Sectors directly affected

- Advanced manufacturing and mobility
- Consumer products and retail
- Energy and resources
- Financial services
- Government and infrastructure
- Health sciences and wellness



**Figure 7. A variety of diversification markets are beginning to attract significant greenfield investments**

Value of announced greenfield FDI projects, by destination (billions of US dollars)



Source: United Nations Conference on Trade and Development (UNCTAD).

# 7. Geopolitics of the oceans



## Theme: Multipolarity | Action: Increase supply chain resilience

About half of the world's population lives within 100 miles of the sea, at least 95% of global data flows through undersea cables, and one-third of energy production is [offshore](#). Recent events – including the destruction of the Nord Stream 2 pipeline and more frequent [freedom of navigation exercises](#) – have highlighted growing geopolitical tensions. **Competition over control of and access to the world's oceans will intensify in 2024, with implications for supply chains, data flows, food supplies and energy security.**

The risk of geopolitical disruption to ocean-based transportation will grow in 2024, according to a [recent assessment](#) of the world's 11 busiest maritime chokepoints (an estimated \$7.4 trillion in trade is at risk of supply chain disruptions in East Asia alone). Ongoing military actions in the Black Sea, increased naval and air operations in and around the South China Sea, and the possibility of more significant naval clashes in the Persian Gulf have already raised maritime insurance rates and have the potential to disrupt critical international shipping lanes (see figure 8).

Concern will also grow about the vulnerability of underwater communications infrastructure. [TeleGeography](#) estimates there are about 550 active and planned submarine cables globally, stretching about 870,000 miles. New cable construction in geopolitically sensitive areas, such as the [Asia Link Cable](#) connecting Southeast Asia and China, could increasingly be at risk of geopolitically motivated cyber or physical attacks.

The energy transition will accelerate interest in seabed mining of critical minerals. Scientists at the [US Geological Survey](#) estimate

that deep sea mining could account for 35–45% of critical minerals supplies by 2065. The [International Seabed Authority](#) will accelerate efforts underway since 2014 to establish exploitation regulations for deep sea mining. But with [64% of the ocean floor](#) located beyond national jurisdictions, geopolitical competition to secure access to these resources will grow.

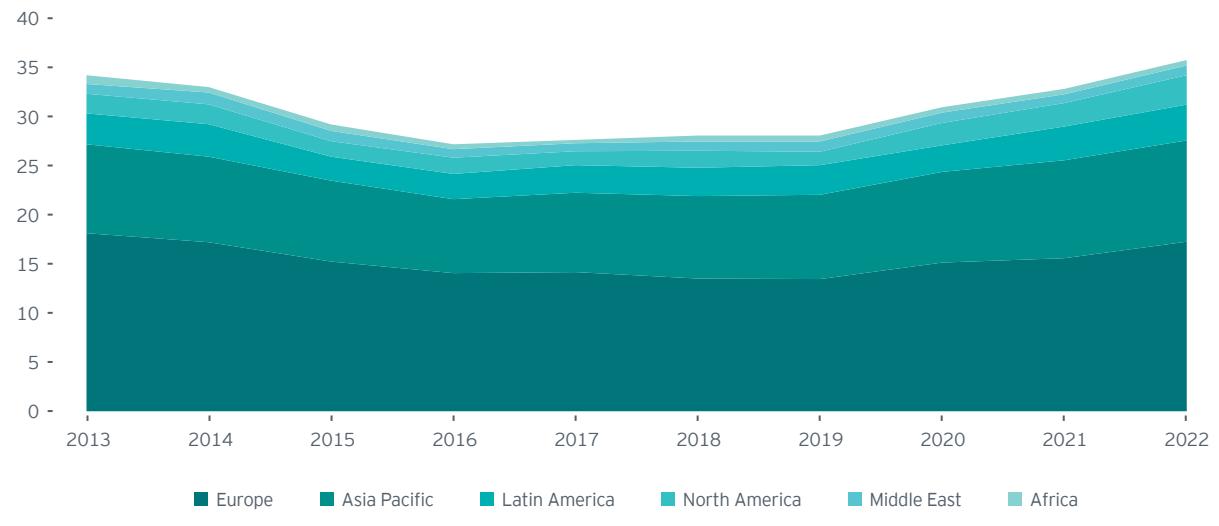
Similarly, the dwindling of fish stocks could lead to heightened international tensions. The [Food and Agricultural Organization](#) reports that the percentage of stocks fished at biologically unsustainable levels rose from just 10% in 1970 to 35% in 2019. Stronger [efforts to combat](#) illegal, unreported and unregulated (IUU) fishing will increase the frequency of at-sea incidents between fishing fleets and navies or coast guards. More than 175 countries are also [negotiating a binding agreement](#) to limit global plastic pollution – which affects more than 800 [marine and coastal species](#) – in 2024.

The Arctic Ocean will be an arena in which all of these trends converge as a warming climate expands access to the area. Geopolitical tensions will continue to extend into the Arctic, such as when seven members of the [Arctic Council](#) suspended their participation in the organization in the wake of Russia's invasion of Ukraine.

Governments have typically dealt with maritime issues in a piecemeal fashion. Given the potential for greater geopolitical conflict, governments are likely to explore more integrated strategies that address all related issues. But despite the progress in agreeing the United Nations High Seas Treaty in 2023, heightened geopolitical tensions will challenge multilateral efforts to regulate the ocean economy in 2024.

**Figure 8. Maritime insurance premiums continue to rise, in part due to geopolitical risk**

Maritime insurance premiums by region (billions of US dollars)



Source: International Union of Maritime Insurance

## Recommendations for business

- **Manage logistics risks and increase supply chain resilience.** Although shipping insurance rates have increased, a steeper rise in coverage rates could impose significantly higher global shipping costs for companies heavily reliant on maritime deliveries. Companies may also face shipping delays and damage to or loss of cargos and vessels if a major conflict erupts. Executives should develop contingency plans to [mitigate risks](#) and limit cost increases, which should inform ongoing strategies for de-risking supply chains through consideration of more regionally based approaches.
- **Explore maritime innovation and investment opportunities.** Deep sea mining, aquaculture and other maritime economic activities are ripe for innovation. As attention on the ocean economy rises, these sectors are likely to become increasingly active markets for private sector capital and government investment. For instance, the demand for a variety of defense products and services – including conventional warships, surveillance aircraft and maritime monitoring systems – is likely to rise. And investments in market-based solutions for managing marine sanctuaries and expanding sustainable aquaculture are likely to expand. Executives should explore what [strategic opportunities](#) the expanding ocean economy may offer their company.

- **Develop ocean strategies with stakeholders and sustainability front and center.** Governments, environmental activists and maritime communities will pay close attention to companies' maritime activities. The potential for reputational and financial damage to companies could be substantial if business operations result in ecological harm. Conversely, companies that develop oceanic resources in consultation with relevant stakeholders will likely have more [sustainable strategies](#) for long-term value creation. For instance, mining companies whose extraction technology can profitably mine the seabed while severely limiting environmental damage will be at a competitive advantage.

### Sectors directly affected

- Advanced manufacturing and mobility
- Consumer products and retail
- Energy and resources
- Financial services
- Government and infrastructure
- Health sciences and wellness

# 8. Competition for commodities

## Theme: Multipolarity | Action: Adapt sustainability strategies

Climate change, the war in Ukraine and the energy transition are shifting global supply and demand dynamics for a variety of essential commodities. The number of countries with extreme water stress has risen from 17 in 2019 to 25 in 2023, according to the [World Resources Institute](#). Since 2021, the [Food and Agricultural Organization](#)'s world food price index has hovered at its highest levels since the 1970s. And the [US Geological Survey](#) estimates the global production of rare earths has increased 131% in the five years to 2022, including significant production coming online in the US (see figure 9). **Geopolitical competition will intensify in 2024 to secure supplies of three key commodities: critical minerals, food and water.**

The first – and likely most visible – area of commodity competition will be for the critical minerals that power EV batteries and the energy transition more broadly. China – which built its industry during a period of low geopolitical tensions – will retain its strategic position as the world's largest refiner of critical minerals in the near to medium term. Some mineral-rich countries will follow the lead of Indonesia and Namibia in requiring more value-added processing domestically. And the US and the EU will seek supply arrangements with countries around the world – including through the [Minerals Security Partnership](#) and the [Lobito Corridor](#).

Agricultural commodities will be another area of competition, as [food instability and insecurity](#) remains a top concern. Climate change will continue to affect crop yields and food production, while the war in Ukraine will continue to limit the global supply of grains, particularly given Russia's reluctance to reengage in the Black

Sea Grain Initiative. Some countries, such as Mexico and India, will continue to impose targeted [export taxes or bans](#) on agricultural commodities to safeguard domestic supply. And China – as the only country to be a top global importer of all six key cereals and meats reported by the [Food and Agricultural Organization](#) – will continue to prioritize food security, including through access to foreign supplies via what some researchers have called the "[Food Silk Road](#)."

The competition for energy and food will become more interconnected as biofuels are part of current decarbonization efforts. The [International Energy Agency](#) estimates that biofuels will account for about 22% of global maize production in 2024, for instance. This could become a salient political issue in countries facing food inflation or insecurity, as a 50% reduction in the grain used for biofuels in Europe and the US would compensate for all the lost exports of Ukrainian grains, according to the [World Resources Institute](#).

Water will be the third area of commodity competition in 2024 as the El Niño-Southern Oscillation climate pattern is forecast to create significant swings in [precipitation levels](#). Geopolitically, this could escalate tensions in water-stressed regions, as only 24 out of 153 countries with transboundary waters have comprehensive cooperation arrangements, according to [UN Water](#). Domestically, policymakers will begin to prioritize adjusting how water resources are allocated across sectors and jurisdictions – such as the 2023 [conservation agreement](#) for the Colorado River among seven US states.



## Recommendations for business

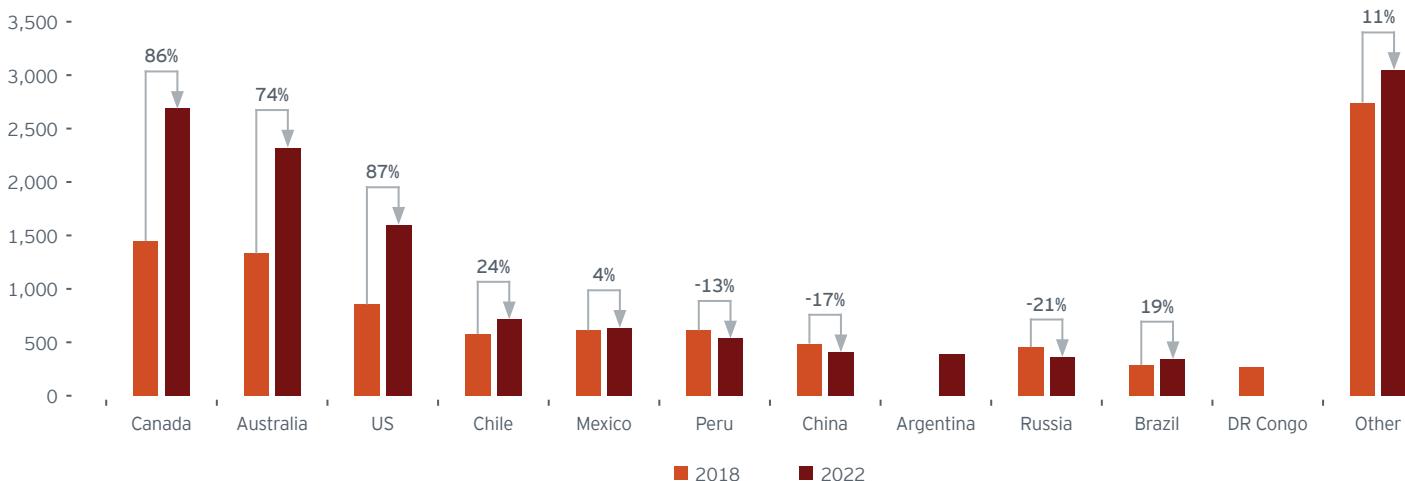
- ▶ **Explore critical minerals investment opportunities.** Geopolitical competition for critical minerals is likely to continue to create more favorable market and regulatory dynamics in the mining sector, leading to more exploration and extraction opportunities. Companies in other parts of the value chain, such as metals recycling companies, will likely also have opportunities to innovate and expand their businesses. Executives should incorporate geopolitical and sustainability policy considerations into their [investment decisions](#).
- ▶ **Improve agricultural and food supply chain resilience.** Global disruptions across the [food value chain](#) will persist, requiring market participants from farmers to grocers to reevaluate their current supply networks and diversify where possible. This could include using innovative fertilizers, sourcing agricultural commodities from more locations or other resilience-enhancing strategies. In many cases, there may be opportunities to partner with governments or to access public financing to help improve national food security, including through the [G7 Hiroshima Action Statement for Resilient Global Food Security](#).

- ▶ **Innovate across sectors on water challenges.** Many water challenges are the result of outdated assumptions built into existing infrastructure and legal agreements and so are ripe for innovation. Heightened attention to water access rights is likely to create challenges, but also opportunities. Governments could seize on the shifts inherent in the geopolitical multiverse to address transboundary water tensions with neighboring countries. Policymakers should collaborate with water utilities and technology companies to design and invest in improved water management infrastructure. And with a significant El Niño climate pattern likely in 2024, [governments](#) and companies should plan for heightened emergency assistance needs to deal with both flooding and droughts.

### Sectors directly affected

- ▶ Advanced manufacturing and mobility
- ▶ Consumer products and retail
- ▶ Energy and resources
- ▶ Financial services
- ▶ Government and infrastructure
- ▶ Health sciences and wellness
- ▶ Technology, media and telecommunications

**Figure 9. Mining exploration spending has increased 35% in recent years, with significant growth in developed markets**  
Mining exploration spending by destination (USD millions)



Note: The top 12 markets for mining exploration spending are included on the graph.

Source: S&P Global Market CapitalQ Pro

# 9. Dual track green policies



## Theme: De-risking | Action: Adapt sustainability strategies

Amid slow economic growth and high inflation, several governments in 2023 started to backtrack on previously agreed emissions reductions regulations that raise costs in the short term. At the same time, government support for the domestic green economy is increasing. **In 2024, the national goals of economic growth and energy security will drive countries' climate policies, magnifying the multispeed nature of sustainability regulations.**

Governments will increase support for domestic green technology manufacturing, which reinforces both energy security and economic growth goals, while also furthering decarbonization. In 2024, China plans to install 200GW of renewables and start rolling out \$72 billion in tax breaks to boost EV demand. In the US, the continued implementation of the 2022 Inflation Reduction Act will provide green tech subsidies and tax credits. The EU plans to deploy up to \$380 billion of EU-level funding by 2030 via the Green Deal Industrial Plan. And the governments of other major economies, including [Brazil](#), [Australia](#) and the [UAE](#), will continue to invest in domestic renewables.

But some governments may slow the rollout of sustainability regulations to satisfy short-term economic objectives and appeal to voters. The EU will reduce disclosure requirements in the Corporate Sustainability Reporting Directive (CSRD) that enters effect in January 2024 and will relax its 2035 internal combustion engine ban for cars and vans. Indonesia and Japan are also delaying planned carbon taxes until 2025 (see figure 10). In contrast, the [US Securities and Exchange Commission](#) (SEC) is expected to introduce its much-delayed climate disclosure rules, and [California](#) will work to implement its own reporting obligations over the next several years – although possible legal challenges could create uncertainty.

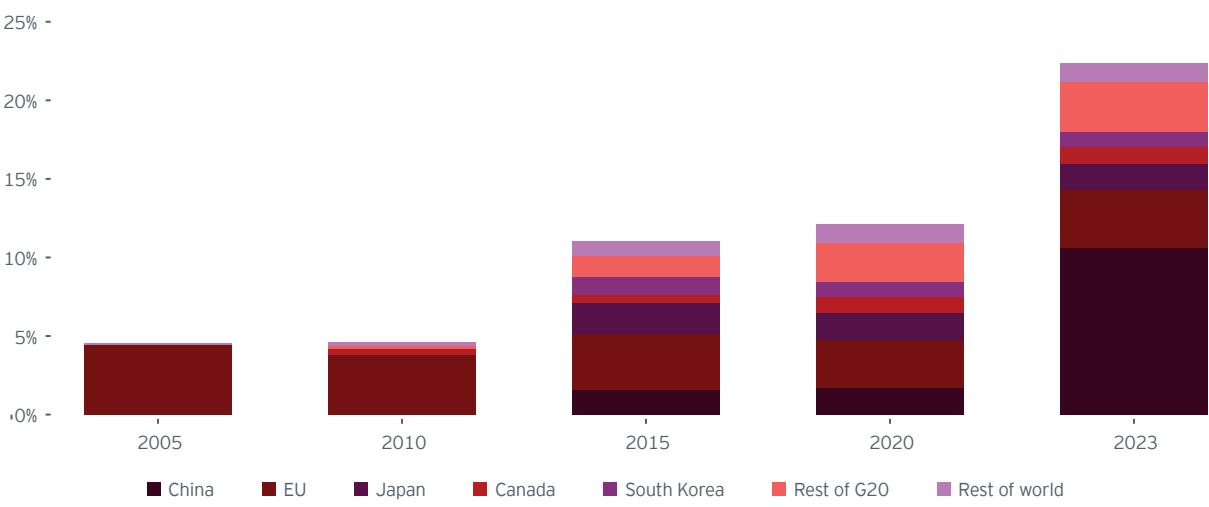
In certain countries, some citizens will grow frustrated with the perceived lack of comprehensive sustainability efforts, while others continue to join efforts to oppose them. This could influence outcomes in the global elections supercycle and will likely intensify environmental activism in certain developed markets. In some countries, climate action groups may accelerate the use of disruptive protests.

There will be a duality to green policies geopolitically as well. Some countries' trading partners will object to climate policies that they see as protectionist or discriminatory. The EU's Carbon Border Adjustment Mechanism (CBAM) will remain a source of global trade tensions; countries may enact retaliatory tariffs. Many large emerging markets will also introduce or expand carbon pricing policies to finance their green transitions and ensure competitiveness of their exports in Western markets. Following the 28th Conference of Parties to the UN Framework Convention on Climate Change ([COP28](#)) in December 2023, geopolitical tensions may continue to grow between countries seeking greater climate ambition and financing and those seen as stalling the agenda.

But geopolitical competition will also drive more green investments in emerging markets, as China, the US and EU seek to build relationships with geopolitical swing states. For instance, the China-led [Asian Infrastructure Investment Bank](#) (AIIB) plans to allocate half of its annual lending for climate projects by 2025. The [US](#) and the [EU](#) also announced new projects to generate sustainable economic growth in countries such as India, Argentina and Egypt.

**Figure 10. Regulations to price greenhouse gas (GHG) emissions are covering an increasing share of emissions worldwide**

Carbon pricing policies as a share of annual global GHG emissions covered



Note: Carbon pricing policies include Emission Trading Systems (ETS) and carbon taxes. The emission figures shown by geography represent the sum of federal, national and sub-national initiatives that have been implemented as of March 2023. The decreasing share of global GHG emissions covered by EU's carbon pricing regulations can be explained by the parallel decline in share of global GHG emitted by the EU. The information on the China national ETS represents early unofficial estimates based on the announcement of China's National Development and Reform Commission on the launch of the national ETS of December 2017. The rest of the G20 includes Argentina (0.15%), Australia (N/A% as just implemented in 2023), Indonesia (0.60%), Mexico (0.53%), South Africa (0.84%), UK (0.19%) and US (0.85%).

Source: World Bank Carbon Pricing Dashboard

## Recommendations for business

- ▶ **Accelerate sustainability investments, partnering with governments.** Companies – especially those investing significantly in research and development – may have the opportunity to [access more public funds](#) for green technology investments. Government-sponsored reskilling programs for students and professionals could also help companies to fill the current labor market gap for [green skills](#). Companies may also be able to obtain capital at lower cost for green investments, as many investors assess lower long-term risks associated with such assets. And heightened levels of geopolitical competition and international climate financing may provide growth opportunities related to the energy transition in emerging and frontier markets.
- ▶ **Incorporate shifting taxes and regulations into operational and financial planning.** Governments backtracking or delaying certain sustainability regulations, such as carbon taxes, could ease fiscal pressure on companies in the short term. However, sudden shifts in environmental targets will create uncertainty for [financial projections](#) and investment strategies. For example, changes to previously agreed timelines to phase out internal combustion engine cars would affect the assumptions and forecasts of EV producers' strategies. Moreover, the emergence of heterogeneous carbon taxes and their uncertain implementation outlook will increase compliance complexity for companies with global operations.

### ▶ Remain focused on long-term sustainability strategy.

Although many governments are expected to reduce the scope of sustainability regulations and mandatory disclosures in the short term, companies should continue to [integrate sustainability](#) in their strategy and due diligence. Staying ahead of the regulatory curve globally and satisfying the growing demands of customers, citizens and investors will continue to be rewarding – for instance 52% of executives in the [2023 EY Sustainable Value](#) study said that financial value from climate change initiatives exceeded their expectations. The focus on energy security means executives should also [incorporate geopolitical considerations](#) into their green strategies to mitigate the risks of disruptions and cost increases.

## Sectors directly affected

- Advanced manufacturing and mobility
- Consumer products and retail
- Energy and resources
- Financial services
- Government and infrastructure
- Private equity
- Technology, media and telecommunications

# 10. Climate adaptation imperative

## Theme: De-risking | Action: Adapt sustainability strategies

Since the United Nations Framework Convention on Climate Change (UNFCCC) in 1992, climate policy has focused on mitigation – that is, reducing greenhouse gas emissions to halt climate change. In the past 30 years, though, the climate has already changed. The last nine years (2014–2022) rank as the [nine warmest on record](#), and the [World Meteorological Organization](#) forecasts that global temperatures will reach new heights in the next five years. **Even as policymakers strive to mitigate climate change through emissions reductions, the urgency of adapting to the current physical risks of climate change will come into sharper focus in 2024.**

Only 5% of parties to the UNFCCC had climate adaptation plans in 2021, but that skyrocketed to more than 80% in 2022, [according to the UN](#). Following the global stocktake of adaptation actions in 2023, governments will likely focus more on implementation in 2024. This will include new standards and investments to improve the resilience of buildings to environmental hazards. The US, for instance, is dedicating more than \$1 billion to such efforts. Many governments will utilize [nature-based solutions](#) to reduce the impact of extreme weather, such as cooling pavements in Tokyo or building designs that cool urban areas in [Singapore](#). Following the [Taskforce on Nature-related Financial Disclosures](#) (TNFD) recommendations released in September 2023, the [International Sustainability Standards Board](#) may launch a project to include biodiversity in its disclosures in 2024.

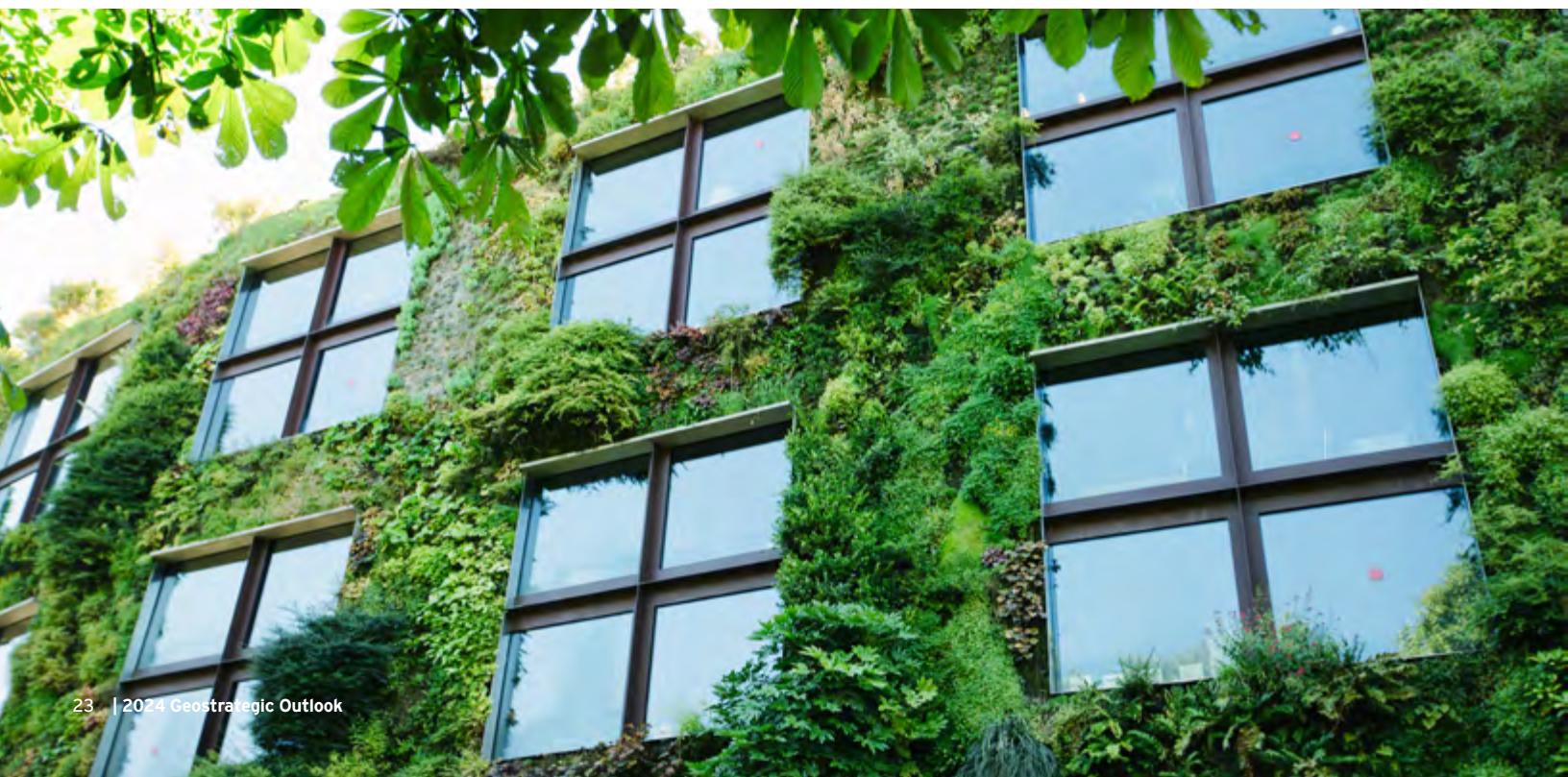
At the same time, the adaptation investment gap is likely to become more apparent. The current El Niño-Southern Oscillation cycle is likely to be a [strong climatic event](#), elevating the risk of extreme weather in 2024. For instance, [Australia](#) is preparing for more heatwaves, wildfires and cyclones. Such extreme weather will

reduce economic growth – in the 2012–2021 period, storms, wildfires and floods alone caused losses of about 0.3% GDP globally each year according to Swiss Re.

Where climate change hits hardest, the loss of livelihoods will likely lead to more political instability in 2024. For instance, the [Stockholm International Peace Research Institute](#) finds that climate change in the Sahel has led to livelihood deterioration, resource conflicts and armed groups expanding recruitment. There have also been eight coups in Sahel countries in the past three years. More broadly, societal discontentment with insufficient climate resilience raises the likelihood of more dramatic changes in governments during the global elections supercycle.

Climate-induced migration will also receive more attention. The El Niño cycle means the number of internally displaced people due to weather hazards in 2024 may exceed the [almost 32 million in 2022](#). More cross-border climate-induced migration is also likely from regions at high risk – which tend to be emerging and frontier markets, according to the [Global Climate Risk Index](#) – to destinations in Europe and North America. Ongoing political sensitivities around immigration in these markets could heighten societal tensions.

Estimated adaptation needs are 5 to 10 times higher than international adaptation finance flows, [according to the UN](#). A key question in 2024 will remain whether and how developed market governments fund climate adaptation efforts in emerging and frontier markets (see figure 11). Nature is likely to be high on the agenda in 2024, given the 16th meeting of the Conference of the Parties (COP) to the Convention on Biological Diversity (CBD) will convene in October.



## Recommendations for business

- ▶ **Invest in innovative adaptation strategies.** As attention to the climate adaptation imperative increases, there will likely be more public and private capital available to fund the research and scaling up of innovative adaptation strategies – with some estimates that this could become a [\\$2 trillion market](#) annually within this decade. This will create opportunities for infrastructure and construction firms, as well as companies offering nature-based and biodiversity-enhancing solutions. For instance, more [cities may seek](#) urban designers that incorporate [trees and water into cityscapes](#) to act as coolants. Executives should assess whether their company has a role to play in developing or deploying climate adaptation innovations, while also including adaptation strategies in their own operations and real estate footprints.
- ▶ **Incorporate climate change into location assessments and investment diligence.** Extreme weather events will continue to damage physical capital, even as chronic physical climate risks – such as rising sea levels – reduce the value of certain assets and disrupt business operations. It will be increasingly important for companies to include such considerations when they invest in new manufacturing plants or other long-term physical assets, particularly given the increasing hesitancy of insurance companies to offer coverage in [high-risk locations](#). Executives should incorporate an assessment of local and national climate adaptation plans, as well as [biodiversity impacts](#), into their decisions about supplier relationships and [potential acquisitions](#) as well.

▶ **Prepare for potential currency effects and tax increases.**

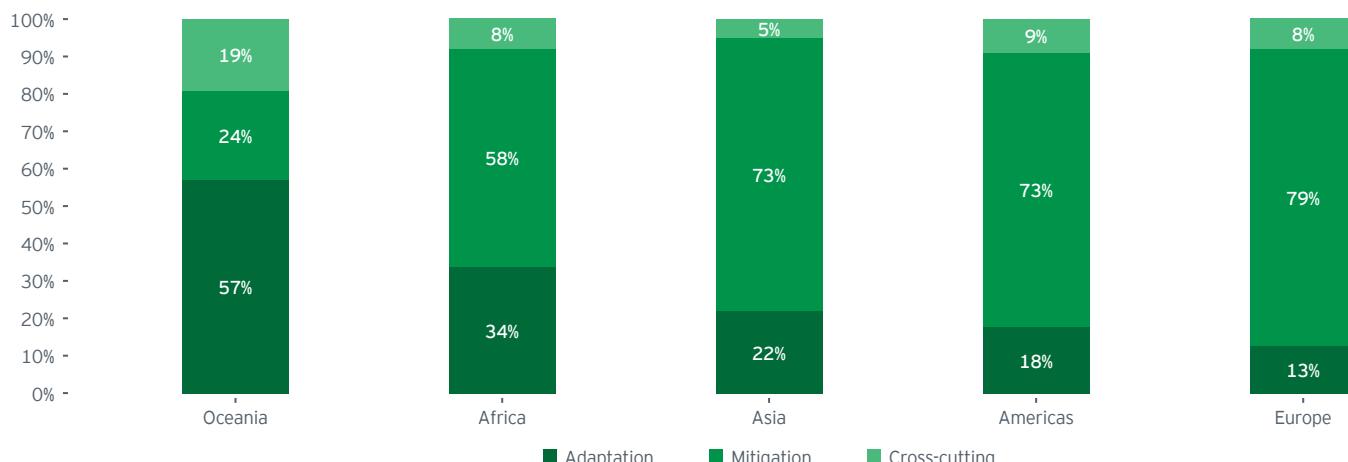
Climate change is damaging infrastructure, including transportation and electricity infrastructure, which often leads to disruption in other business activities. While the climate adaptation gap persists, governments will face reduced tax income from depressed business activities and increased fiscal expenditure to rebuild damaged infrastructure. Executives should prepare for the subsequent worsening of a government's fiscal position to potentially depress the value of the local currency. Companies should also monitor where such situations could lead to tax increases – either across the board or targeted at particular industries such as [oil and gas](#) – to improve government finances.

### Sectors directly affected

- Advanced manufacturing and mobility
- Consumer products and retail
- Energy and resources
- Financial services
- Government and infrastructure
- Health sciences and wellness
- Private equity
- Technology, media and telecommunications

**Figure 11. Although adaptation finance has been increasing, it still falls short of the needs**

International climate financing in developing countries, by region and activity (2016-2020)



Source: Organization for Economic Co-operation and Development, <https://www.oecd.org/environment/climate-finance-provided-and-mobilised-by-developed-countries-in-2016-2020-286dae5d-en.htm>

# Sector impacts

The top 10 geopolitical developments in the 2024 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 and sub-sectors, particularly in the near to medium term (see Figure 12). Some sectors will be directly impacted by all or almost all of the top 10 developments, including the “highly strategic” technology sector and the “traditional strategic” energy and infrastructure sectors. The key market themes and business impacts for eight sectors are outlined in this section.

**Figure 12. Geopolitical impacts on businesses are broad based, but will vary across sectors**

Summary of top 10 geopolitical developments by direct sector impacts

	Advanced manufacturing and mobility	Consumer products and retail	Energy and resources	Financial services	Government and infrastructure	Health sciences and wellness	Private equity	Technology, media and telecommunications
The geopolitical multiverse	✓		✓	✓	✓	✓		✓
Geopolitics of AI				✓	✓	✓	✓	✓
Domestic challenges in the US and China	✓	✓			✓	✓		✓
Global elections supercycle			✓		✓			✓
Prioritizing economic security	✓		✓	✓	✓	✓	✓	✓
The diversification agenda	✓	✓	✓	✓	✓	✓		
Geopolitics of the oceans	✓	✓	✓	✓	✓			✓
Competition for commodities	✓	✓	✓	✓	✓	✓		✓
Dual track green policies	✓	✓	✓	✓	✓		✓	✓
Climate adaptation imperative	✓	✓	✓	✓	✓	✓	✓	✓

Source: EY Geostrategic Business Group

## Advanced manufacturing and mobility

### Operational and supply chain models will shift

In the advanced manufacturing and mobility (AM&M) sector, three primary issues that companies face are capital access and allocation, labor skills and availability and the supply of inputs and components. Each of these issues will likely be affected by geopolitical developments in 2024.

**Prioritizing economic security** is likely to affect capital access and allocation for many AM&M companies. These policies are focused on building or expanding countries' domestic manufacturing capabilities in strategic products, so some manufacturers will be able to access preferential government financing, tax credits or other subsidies for new capital expenditure projects. Similarly, manufacturers entering or expanding in new markets as part of **the diversification agenda** may be eligible for government incentive programs. Shifting international footprints may change the political risk profiles of manufacturing firms, requiring a refresh of both their strategies and risk management processes.

The **diversification agenda** will also affect industrial companies' labor force. Labor market policies and the skills availability in alternative markets – such as those in Southeast Asia, Eastern Europe and Latin America – will be important considerations for industrial companies, particularly those that require higher skilled labor, seeking to diversify their operations or supply chains. And in some developed markets, strikes and other labor activism has been elevated in 2023, which could persist in 2024.

Geopolitical developments will affect several aspects of industrial companies' inputs and supply chains in 2024. The **competition for commodities** will affect the price and availability of critical minerals that are needed for a range of inputs, including semiconductors. Some AM&M companies are also likely to be affected by water access issues, as governments seek to adjust how water resources are allocated across sectors and jurisdictions, particularly in water-stressed areas.

The **geopolitical multiverse** could also affect manufacturers, particularly via its effect on global energy prices. For example, the ongoing violence in the Middle East may lead to an increase in prices of oil, some key fertilizers, organic chemicals and bromine (Israel produces 30% of the latter). The continued shift toward blocs and alliance networks may also increase complexity for manufacturers trying to balance costs and risks in their global footprint. And, given the dispersed nature of manufacturing value chains, if the **geopolitics of the oceans** disrupts maritime trade, then AM&M companies could face supply disruptions.

China remains a key market for many manufacturers, in terms of both production and sales. As such, dynamics associated with **domestic challenges in the US and China** are likely to impact the AM&M sector in a variety of ways. The strength of economic activity within China will affect manufacturers' growth prospects, as will any government policies to expand domestic advanced manufacturing capabilities. And the evolution of China's relations with the US and other developed markets will affect the supply chains, investments and strategies of manufacturing companies that have footprints in both sets of markets.

There are also a variety of aspects of **dual track green policies** that could affect business models in the sector. The implementation of emissions reporting may create challenges for some manufacturers, for instance. At the same time, government investment in EVs is likely to create opportunities for some automakers. The **climate adaptation imperative** may also impact manufacturers, as extreme weather events can cause significant disruption to their multi-tiered global supply chains.





## Consumer products and retail

### Sustainability and diversification will reshape supply chains

Companies in the consumer products and retail sectors are among those at the forefront of including sustainability considerations into their business models and strategies. As such, government policies associated with the [climate adaptation imperative](#) may provide opportunities for consumer companies to invest in this space both to ensure their own resilience and to invest in new products and services to support climate adaptation in the market. At the same time, however, markets and companies with insufficient climate adaptation initiatives are likely to suffer negative economic shocks, which could lead to sales and revenue shortfalls.

[Dual track green policies](#) will also impact consumer companies as they seek to balance cost and growth priorities with a growing need to demonstrate and deliver sustainability for their consumers. As governments continue to roll out emissions disclosure requirements, companies will need to measure and report GHG emissions across their supply chains and will increasingly argue for standardization and harmonization in reporting metrics between different regulatory bodies. While some consumer companies may see sustainability disclosures as a way to advertise their green credentials, others will face scrutiny from consumers and investors that drives a shift in their supply chain strategies.

The US and China are the largest consumer markets in the world and are typically responsible for a large share of growth among companies in this sector. [Domestic challenges in the US and China](#) could therefore have significant implications for consumer companies. If domestic challenges in either market manifest in meaningful ways, consumer companies will face reduced sales and revenue prospects. China is also an important part of the consumer goods production and supply chain, so policy changes within China or volatility in US-China relations could impact companies' operations.

Many consumer companies are embracing [the diversification agenda](#) by exploring alternative markets for production locations and new supplier relationships, partly to hedge against an overreliance on key markets. Some governments are providing incentives for investments due to the employment benefits that joining global consumer supply chains provide. As companies in other sectors invest in alternative markets, the broader economic growth these investments generate could provide opportunities for retailers to expand into new markets.

[Competition for commodities](#) will be particularly impactful for the agribusiness sub-sectors. Rising input costs will have a direct impact on the supply and prices of agricultural commodities. As a result, farmers are aiming to diversify the tools they apply – such as leveraging data to forecast yields and optimize inputs – to hedge against input price volatility. Freshwater constraints could also affect the agribusiness sector, as governments adjust how water resources are allocated.

The [geopolitics of the oceans](#) is likely to affect consumer and retail companies in multiple ways. Fisheries conflicts and how they are addressed will affect the price and availability of fish for food companies. More broadly, the risk of geopolitical tensions disrupting critical shipping lanes could raise shipping costs and insurance rates for consumer goods companies, many of which have global supply chains that rely on the world's busiest maritime chokepoints. If shipping is physically disrupted, consumer companies would face supply chain delays and mounting costs.

## Energy and resources

### Energy production and consumption patterns will change

As a traditional strategic sector, almost all of the top 10 geopolitical developments will have implications for energy companies. Perhaps most significantly, [dual track green policies](#) will affect the business models and strategies for companies across the entire sector. At a macro level, some green policies could be inflationary in the short term. In the longer term, they may lower inflation as they shield some countries from the volatility of global oil prices. Alongside growing appetite from consumers and investors, these policies will drive the pace of the energy transition in markets around the world, with the transition occurring at [different speeds and at different times](#) as influenced by government policy choices. For instance, some governments including the US and EU will continue to allocate funding to expand local supply chains of clean technologies (e.g., EVs). The [global elections supercycle](#) will likely influence the ambition and speed of green policies in a variety of key markets.

Also related to the energy transition, the supply chain around critical minerals is strategically important for the energy and resources sector. The [geopolitics of the oceans](#) will affect whether mining companies will be able to explore and extract seabed mineral resources. And how the [competition for commodities](#) plays out for critical minerals will affect mining companies in a variety of ways, including their operations and supply chains, sales and revenue, growth and investment strategies, and finance and tax considerations. The competition for commodities will affect the rest of the energy and resources sector as well, such as for power and utility companies building photovoltaic plants, via the supply of refined critical minerals for firms providing battery storage, and for biofuels producers through the food versus fuel debate.

[Prioritizing economic security](#) will also affect where energy companies choose to operate, as governments seek to enhance energy self-sufficiency and reduce reliance on geopolitical rivals for energy resources. European governments will continue to pursue these policies across the energy landscape, given their historical reliance on Russian gas, in particular, while other governments are likely to focus more on critical minerals. The [diversification agenda](#) will also affect where energy companies explore and exploit resources. Since the potential diversification markets are limited by geology, some governments are likely to use their resource endowments as levers to raise taxes on energy companies or require more value-added investments in their markets.

The energy transition is contributing to [the geopolitical multiverse](#) by expanding the number of significant energy-producing countries in the world. The war in Ukraine has given a variety of oil and gas producers more geopolitical leverage, while the expansion of renewable energy and high-capacity battery production is increasing the sway of minerals producers. This creates both challenges and opportunities for energy companies' global strategies. Coupled with de-risking and diversification, this may lead to co-locating energy production and consumption more closely. The geopolitical multiverse could also lead to the creation of new energy groupings – for critical minerals, for example – like the Organization of Petroleum Exporting Countries (OPEC) for oil. It is also creating a more complex and dynamic international sanctions environment with which energy companies need to comply.

Finally, the [climate adaptation imperative](#) is likely to have an increasing impact on energy companies as policymaker attention turns toward safeguarding biodiversity and establishing or expanding carbon sinks. There is potentially a large amount of land that governments could actively keep as undeveloped as part of climate adaptation efforts, which could have significant implications for energy companies in the medium to long term. Notably, the significant scale up of renewable technologies required to reach net-zero targets by 2050 represents a strain on the near-term supply of ecosystem services and assets (e.g., in terms of land area, mining activities and inputs such as ammonia).





## Financial services

### Shifts in how and where clients will be served

Financial services is a heavily regulated sector, so most financial institutions have established teams and processes for managing [regulatory risks](#). In addition, fiscal and monetary policies have a direct impact on financial services institutions via their effects on interest rates and the cost of capital. In the current global environment, there are a wider array of geopolitical developments that are impacting the financial services sector as well.

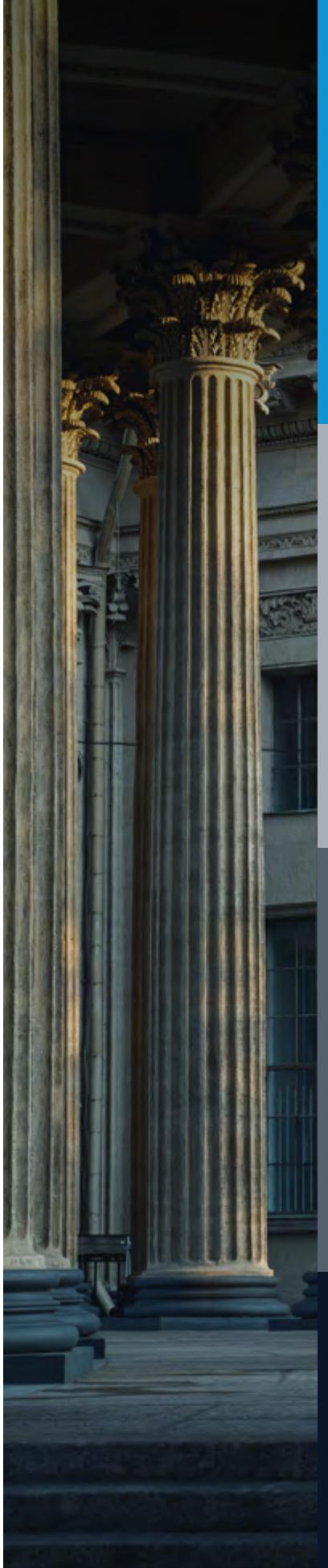
The combination of [prioritizing economic security](#) and [the diversification agenda](#) is affecting how banks and insurers think about their global footprints and strategies. These geopolitical developments will continue to shift where global production and supply chains are concentrated, which will shift how and where banks serve their clients. And for insurers, these developments are likely to pose new challenges and disruptions that may not yet be accounted for in their insurance models. Financial services institutions will need to monitor these shifts in their client bases and adjust their own footprints accordingly.

[Dual track green policies](#) will also affect how banks operate in markets around the world. Many governments continue to put in place policies and regulations that recognize the role of banks as providers of financing for the green transition and other sectors' decarbonization efforts. There is a growing divergence, however, between green policies that affect financial institutions in the US versus those in Europe and many other markets. Banks will need to navigate this shifting and diverging sustainability regulatory environment, with some choosing to align with more ambitious policies even in markets that don't require it. These dynamics are also likely to perpetuate a growing divide in banks' strategic focus, societal commitments and profitability.

The [competition for commodities](#) will impact global commodity markets, including capital markets products such as commodity futures. Geopolitical dynamics could lead to significant swings in currency prices as well. [The geopolitical multiverse](#) will also affect capital markets. As the world moves from a more unipolar to a more multipolar system, a more diverse set of currencies is being used to execute international transactions. This will affect foreign exchange rates and currency markets more broadly – and could limit the ability of central banks to work effectively together in times of crisis, which would increase risk premia for the sector. The geopolitical multiverse will also affect a wider array of financial institutions via international sanctions. Banks in particular will need to monitor and ensure compliance in a dynamic sanctions environment.

Insurance companies will be affected by several of the top geopolitical developments, including through more frequent large-scale risks, gaps in the types of risks insurers are underwriting and a squeeze on profitability. For instance, [the geopolitical multiverse](#) could lead to more conflicts that could increase political risk insurance claims and also amplify risks in areas such as cyber security. Similarly, the [geopolitics of the oceans](#) is likely to raise premiums and possibly claims for maritime insurance. And the [climate adaptation imperative](#) could continue to pressure insurers' profitability in geographies that experience more frequent and significant extreme weather events.

The regulatory race associated with the [geopolitics of AI](#) will affect financial services institutions as well. Firms will face divergent regulations across markets, complicating data management, AI implementation and regulatory compliance. The EU AI Act, in particular, could impose large financial penalties if firms fail to comply with its provisions. But financial services firms could have opportunities to participate in governments' "regulatory sandboxes" to test new AI applications in a controlled environment.



## Government and infrastructure

### Policymaking challenges domestically and internationally

Governments will be affected by all 10 geopolitical developments in 2024. Perhaps most notably, a significant number of governments around the world face elections as part of the [global elections supercycle](#). These electoral cycles will in many cases slow the policymaking agenda as government officials focus on wooing voters to win elections. In addition, many countries' elections systems will be at risk of foreign interference, whether through cyber attacks, misinformation campaigns, or financial operations. While some incumbents will win, this wave of elections will also bring new individuals into government leadership positions. In both cases, fresh popular mandates will provide governments with an opportunity to pursue new policy agendas.

[Prioritizing economic security](#) will create both challenges and opportunities for governments. Such policies may enable governments to support new investments in their economies that boost international competitiveness – although they may face challenges associated with rising costs and potential tensions with trading partners. And while a government's own industrial policies may boost investment in their economy, similar policies by geopolitical rivals are likely to dampen foreign direct investment. Policymakers are therefore engaged in competition with other countries to attract private investment, particularly in strategic sectors.

Governments in geopolitical swing states (those that are not specifically aligned with any major power or bloc) are likely to be well-placed in this competition, as companies seek alternative markets for production, supplier relationships and sales as part of [the diversification agenda](#). Competition among potential diversification markets could become fiercer, however, so governments will need to identify their value proposition to multinational companies and put in place policies that reduce any potential impediments to investments in their economies. But pressure on public finances may constrain governments in terms of the investment incentives they can offer.

Infrastructure companies will have growth and investment opportunities associated with the [climate adaptation imperative](#) and [dual track green policies](#). But infrastructure companies will also face labor supply and productivity challenges, as [studies](#) find that temperature rises negatively impact cognitive and physical productivity for outdoor or labor-intensive activities.

Many governments will likely continue to face tradeoffs associated with these two climate change-related developments. Domestically, policymakers will need to balance cost, affordability and financing challenges with sustainability considerations – as well as the interests and concerns of different sectors and societal groups. Internationally, governments will face a more complicated policy environment amid the declining strength of global multilateral institutions. There are increasing pressures on governments, particularly in developed markets, to help other countries with climate change mitigation, as well as humanitarian relief and disaster recovery efforts.

The [geopolitical multiverse](#) and [domestic challenges in the US and China](#) are also likely to create more difficulties in managing arenas of international competition. For instance, the [geopolitics of the oceans](#) requires multilateral engagement on a variety of issues, including managing fish stocks, mining critical minerals and safeguarding internet cables. And aspects of the [competition for commodities](#) also require international negotiations, particularly surrounding access rights for transboundary waters. While progress is likely in some of these areas, policymakers will face hurdles to achieving multilateral agreements. In some cases, these issues could become geopolitical flashpoints, for instance regarding resource rights and shipping lanes in the Arctic. Other tensions associated with the geopolitical multiverse may also lead governments to impose more sanctions on rivals and perceived bad actors.

The [geopolitics of AI](#) will also be complicated by the divided global system. Regulators that are first movers will have an opportunity to influence the development of other countries' regulations and build public trust in the market. At the same time, governments will feel pressure to ramp up public investment in AI and create a suitable regulatory environment to also attract private investment. While some governments are seeking global consensus on AI regulatory frameworks, it is likely that policymakers will focus on coordinating AI approaches within their alliance networks.



## Health sciences and wellness

### Evolution in global footprints and demand levels

Pharmaceuticals, medical devices and other life sciences companies are likely to continue to be significantly impacted by geopolitical developments in 2024 – 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 will nevertheless be affected by geopolitical developments as well.

As part of [prioritizing economic security](#), governments will continue to incentivize or mandate greater supply chain resilience for life sciences companies. Given the experience of the COVID-19 pandemic, governments view active pharmaceutical ingredients (APIs) and medical devices as important for social and economic security. And the intellectual property of biotechnology companies is increasingly seen as a national security concern and an element of geopolitical competition. Many companies in the sector will likely need to adjust their global footprints and supply chains to comply with such de-risking policies. This could raise costs – in terms of inputs, production and labor – across the sector.

Relatedly, the [diversification agenda](#) will impact life sciences companies in terms of which alternative markets they expand in or enter. In addition to geopolitical relations between their home country government and the target country's government, executives will need to consider country-specific political risk environments when adjusting their global footprint. Life sciences companies will likely benefit from investment incentives in some markets, but they may also face challenges associated with labor skills and availability and infrastructure quality. In some cases, significant investments in upskilling workers will be needed.

Throughout the health sciences and wellness sector, organizations are exploring how to harness AI to transform health care. Health care providers, for instance, are seeking to better leverage the data they have been collecting on patients for decades. And AI is also being used to address health care workforce shortages. How the [geopolitics of AI](#) evolves will therefore have a significant impact on data management and growth and investment opportunities in the sector. Regulations on AI could create compliance risks for traditional players, even as AI creates revenue opportunities for innovators and new entrants. In addition, greater use of AI could heighten cybersecurity risks, as health data is particularly sensitive to cyber crime.

The demand for health care provision may also be impacted by geopolitical developments via second- and third-order effects. For instance, if governments fail to effectively address the [climate adaptation imperative](#), then public health is likely to worsen due to the negative effects of extreme heat and poor air quality (e.g., from wildfires). The [competition for commodities](#) could also affect the health of some populations if they have insufficient access to fresh water and food. And, to the extent that the [geopolitical multiverse](#) leads to more conflicts around the world, health care systems would be stressed in those areas.

## Private equity

### Policy-driven investment opportunities

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.

Prioritizing economic security will affect the PE sector in two countervailing ways. On the one hand, the implementation of more restrictions on cross-border trade and investment is likely to create more “no-go” market segments or geographies for PE firms, which could restrict growth and investment. On the other, governments creating the environment or incentivizing investment in strategic sectors domestically creates the opportunity for more local start-up funds in markets such as China. And as industrial policies such as the US CHIPS and Science Act continue to be rolled out, the scale of capital required provides an opportunity for PE firms to partner with corporates in financing new investments. PE will likely see such investment opportunities in semiconductors, biotechnology and other strategic sectors.

Related to this, the geopolitics of AI could also provide the PE sector with opportunities to invest in this emerging industry. Thus far, venture capital has been more active in this space, but as governments direct more attention to innovating and competing in AI, more PE firms could get involved. However, cross-border investments in AI between geopolitical rivals will likely be restricted.

The PE sector will continue to focus on environmental, social and governance (ESG) considerations, both in terms of reporting on the ESG impact of their activities and as an investment thesis for some funds. Dual track green policies will affect both of these dynamics. On the former, PE firms will face different regulatory requirements to report on the emissions associated with their portfolio companies. And on the latter, government policies to accelerate the energy transition could continue to create opportunities for PE investments. At the same time, the reduced ambition of some governments’ climate policies could also facilitate opportunities to make traditional energy sources more sustainable. Relatedly, the climate adaptation imperative may also become a more significant part of some funds’ investment thesis.





## Technology, media and telecommunications

### Restrictions on cross-border investments and sales

Governments continue to view many sub-sectors and products within the technology, media and telecommunications (TMT) sector as highly strategic. As a result, [prioritizing economic security](#) will affect a variety of companies in this sector. Semiconductor manufacturers will continue to be the focus of export controls and cross-border investment restrictions, while at the same time having access to government incentives and subsidies as part of industrial policies to build advanced, localized capabilities. Telecommunications companies will also have access to government incentives and infrastructure funding, while also likely facing higher costs due to regulations surrounding which equipment manufacturers they can use in their networks.

The [geopolitics of AI](#) will also have a significant impact on the sector. The dual races to innovate and regulate AI mean that governments will act as both a driver and an inhibitor of the sector in 2024. The balance between these countervailing forces will vary across markets. For instance, some firms may see the EU's policies as more inhibiting than those in other jurisdictions. Across all major markets, technology companies are seeking opportunities to help shape the regulatory agenda on AI. In many jurisdictions, the outcome of votes in the [global elections supercycle](#) will affect the outlook for AI regulations.

[Domestic challenges in the US and China](#) will also affect the TMT sector in a variety of ways, since the two largest economies in the world are also among the most technologically advanced. China's economic policies will continue to prioritize the development of greater domestic capabilities in semiconductors, AI, quantum computing and other emerging technologies. And state and federal legislative dynamics in the US could create a more fragmented and uncertain regulatory environment for TMT companies, as states implement different policies, for instance on data privacy.

More broadly, [the geopolitical multiverse](#) will likely affect TMT companies' ability to innovate. On the one hand, the bifurcation of the global technology sector into blocs could create more [opportunities for local companies](#). And global TMT companies are likely to have growth and investment opportunities in geopolitical swing states. On the other, heightened geopolitical tensions among blocs or alliance networks could create more siloed talent pools and research and development (R&D) hubs. The ongoing violence in the Middle East may be particularly disruptive to the TMT sector, given Israel's role as a technology innovation hub. The reduction in cross-border data, talent and intellectual property flows could dampen innovation growth in the sector. In the geopolitical multiverse, tensions are likely to play out in cyberspace as well. TMT companies could be the target of state-sponsored cyber attacks.

The [geopolitics of the oceans](#) is likely to affect telecommunications firms, as concern grows about the vulnerability of underwater communications infrastructure and construction of new internet cables occurs in geopolitically active areas. And the [competition for commodities](#) will affect TMT companies via the supply chain for critical minerals, which are crucial inputs in semiconductors and other technologies. Companies may need to set up alternative supply routes, engage in creative partnerships with mining companies and pay more for critical minerals supplies. Water scarcity may also affect companies in the TMT sector, as water is used as a coolant in data centers. There may be increased policymaker and societal attention on generative AI's high water use, for instance.

Relatedly, [dual track green policies](#) will affect TMT companies via emissions reporting in their supply chains and their [high energy use](#) to store and analyze data in data centers. The widespread adoption of AI will heighten TMT's energy use even further because AI requires very high levels of data processing. Some technology companies are tackling this issue by exploring new energy solutions, such as building their own emissions-free power plants.

This points to a final impact of geopolitical developments for the TMT sector: some of these challenges also provide technology companies with strategic opportunities to be part of the solution. For instance, technology can play a role in accelerating or reducing the costs of the energy transition. Similarly, technological innovations may enable governments to better address the [climate adaptation imperative](#).

“

An even more complex geopolitical environment is on the horizon. Businesses need to innovate and adapt their strategies to stay ahead.



# 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 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.

Scanning the external environment to identify political risks is the first step in implementing a geostrategy (see figure 13). As such, to select the top 10 geopolitical developments in the 2024 Geostrategic Outlook, the GBG first conducted a crowdsourced horizon scanning exercise to identify potential political risks. The crowdsourced inputs came from dozens of subject matter resources across EY teams, including those focused on public policy, strategy, macro trends and sector-level developments across all geographical regions. 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 interviews with subject matter resources in other political risk organizations.

Next, the GBG assessed all the identified political risks along two dimensions: their probability of occurring and the degree to which

they would have impact on companies across sectors and geographies globally. This impact assessment is aligned with 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, broadly speaking for global companies.

The analysis for each of the 10 developments in the 2024 Geostrategic Outlook explores how each development is likely to unfold in the year ahead (scan), 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 recommended actions that executives can take to manage each geopolitical development in a strategic and proactive manner.

Looking back at the [2023 Geostrategic Outlook](#), geopolitical developments unfolded largely as expected. “Stabilized volatility” proved an apt description of geopolitical tensions and government intervention in economies persisting and plateauing at an elevated level – at least through the first three quarters of the year. Tensions began to rise again in the fourth quarter, though. And governments around the world faced a variety of “policy trade-offs,” including notably on energy security. However, central banks and fiscal policymakers managed the inflation-recession paradox better than had been expected.

**Figure 13. Scanning the geopolitical environment is the first step in implementing a geostrategy**

EY geostrategy framework



Sources: EY Geostrategic Business Group

# Authors

## Courtney Rickert McCaffrey

EY Global Insights Leader,  
Geostrategic Business Group  
Director, EY Knowledge  
Ernst & Young LLP

courtney.r.mccaffrey@ey.com

## Oliver Jones

EY Global Leader,  
Geostrategic Business Group  
oliver.jones@uk.ey.com

## Famke Krumbüller

EY EMEA Leader,  
Geostrategic Business Group  
famke.krumbmuller@parthenon.ey.com

**With contributions from Adam Barbina, Douglas Bell, Ben-Ari Boukai, Alessandro Faini, Ari Ben Saks and Jay Young.**

The authors would also like to thank the following individuals for their assistance with this report:

Lee Addams, Ankur Agarwal, Ritu Agrawal, Adrian Baschnonga, Gaurav Batra, Ankit Bayala, Ragna Bell, Sneh Bhat, Liz Bolshaw, Marie A Bos, Charles Brewer, Andy Brogan, Elizabeth Burgess, Aaron T Byrne, Mallory Caldwell, Ranu Carroll, Lauren Chupp, West Coghlan, Jon Copestake, Andrew Cosgrove, Gregory Daco, Megan Dahlgren, Ning Dai, Patrick Dawson, Jim Doucette, Julia Duggan, Tim Dutterer, Amanda Evans, Steve Fouhal, Nicola Gates, Ryan Gavin, Hillary Gerlings, Dean Goldberg, Angelika Goliger, Davinderpreet S Gugnani, Sandeep K Gupta, John Hallmark, Andrew Hearn, Jason Hillenbach, Andrew Hobbs, Andrew Horstead, Gautam Jaggi, Antony Jones, Junko Kaji, Aman Kaushik, Jean P Keleher, Greg Kerr, Prarthana Khera, David Kirsch, Kate A Kizer, Claudio Knizek, Levente Kovacs, Harish Kumar, Katie Kummer, Lisa LaMotta, Katie Mack, Shawn Maher, Urvi Majhi, Shaun Maxwell, Anne McCormick, Ben McCulloch Kossak, Julie McQueen, Colleen Meeker, Karl Meekings, J.T. Metzger, Sooraj Mittal, Sampada Mittal, Bhavnik Mittal, Samara Miyagi, Lori Moore Baldino, Grantley Morgan, Cherelle Murphy, Bridget Neill, Amber Nelson, Viddhi Parekh, Barry Perkins, Michael Pifko, AnnMarie Pino, Martha Raupp, Maria Rodriguez, Viddhi Rohit Parekh, Anastasia Roussou, Marek Rozkrut, Cat Rushton, Rajni Sadana, Ankur Sadhwani, Karan Saksena, Iram Sana, Frank Schafer, Joe Sebestyen, Michelle F Settecase, Amal Shah, John Shumadine, Jiwanjot Singh, Swapnil Srivastava, Shauna Steele, Christoffer Stone, Bernard Stringer, Julia Tay, Karan R Teluja, Arun V Tom, David Torres, Daksh Tyagi, Anil Valsan, John van Rossem, Caroline Vasques, Andreas Waelchli, Scott Welch, Michael Wheelock, Laura Williams, Andre Winarto, Laura Winthrop, Peter Witte, Olivier Wolf, Edmund CH Wong, Jeff Wray, Yi Y Xie, John De Yonge and Yifei Zhang.

# Contacts

## Americas

### Adam Barbina

New York  
Ernst & Young LLP  
adam.l.barbina@parthenon.ey.com

### Ben-Ari Boukai

Washington DC  
Ernst & Young LLP  
ben-ari.boukai@parthenon.ey.com

### Mary Karol Cline

Washington DC  
Ernst & Young LLP  
mary.k.cline@ey.com

### David Kirsch

Houston  
Ernst & Young LLP  
david.e.kirsch@ey.com

### Courtney Rickert McCaffrey

Washington DC  
Ernst & Young LLP  
courtney.r.mccaffrey@ey.com

## Ari Ben Saks

Mexico City  
ari.b.saks.gonzalez@mx.ey.com

## Jay Young

Dallas  
Ernst & Young LLP  
jay.young1@ey.com

## Asia-Pacific

Nobuko Kobayashi  
Tokyo  
nobuko.kobayashi@parthenon.ey.com

## Kyle Lawless

Tokyo  
kyle.lawless@parthenon.ey.com

## EMEA

### Alessandro Faini

Paris  
alessandro.faini@fr.ey.com

### Angelika Goliger

Johannesburg  
angelika.s.goliger@za.ey.com

### Oliver Jones

London  
Ernst & Young – United Kingdom  
oliver.jones@uk.ey.com

### Famke Krumbüller

Paris  
famke.krumbmuller@fr.ey.com

## EY | Building a better working world

EY exists to build a better working world, helping create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via [ey.com/privacy](http://ey.com/privacy). EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit [ey.com](http://ey.com).

### About EY-Parthenon

EY-Parthenon teams work with clients to navigate complexity by helping them to reimagine their eco-systems, reshape their portfolios and reinvent themselves for a better future.

With global connectivity and scale, EY-Parthenon teams focus on Strategy Realized – helping CEOs design and deliver strategies to better manage challenges while maximizing opportunities as they look to transform their businesses. From idea to implementation, EY-Parthenon teams help organizations to build a better working world by fostering long-term value.

EY-Parthenon is a brand under which a number of EY member firms across the globe provide strategy consulting services. For more information, please visit [ey.com/parthenon](http://ey.com/parthenon).

### 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.

© 2023 EYGM Limited.  
All Rights Reserved

EYG No. 011480-23GbI  
CSG No. 2309-4341598  
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, legal or other professional advice. Please refer to your advisors for specific advice.