How geopolitics is driving transformation

December 2024

EY Parthenon

Shape the future with confidence

The world in 2025

The past year has been characterized by political and policy uncertainty, in large part due to what we dubbed the "global elections supercycle" in the 2024 Geostrategic Outlook. It was a historic year for electoral democracy, with voters representing about 54% of the global population and 60% of global GDP going to the polls. In many countries around the world, voters gravitated away from incumbent or establishment candidates.

Looking ahead, we identify three core themes that will characterize the world and reshape transformation agendas in 2025.

First, there will be a significant transition from political leaders focusing on winning elections to focusing on governing. This transition means that policies and regulations will change in many markets around the world, dramatically so in some cases. While leaders may welcome the reduction in the inherent political uncertainty associated with elections, they will nevertheless need to focus on how new policies and regulations that are proposed and implemented could transform their organizations.

Second, many policymakers are likely to double down on policies designed to ensure their economic competitiveness and sovereignty. Following the de-risking trend in 2024, governments will continue to expand trade protectionism and industrial policies to promote economic sovereignty. These policies will in most cases be targeted at products and sectors that governments see as critical to national security and future international competitiveness. Digital and climate technologies are likely to top that list in 2025. Industrial ecosystems in these and other strategic sectors are likely to expand in a variety of markets. This may diversify supplier locations for certain products, but the duplication of investment across countries and simultaneous shrinking of commercial markets risks perpetuating or reigniting inflationary pressures.

Third, geopolitical rivalries will also persist, shaping countries' foreign policies and transforming the global operating environment. The multipolar world will continue to complicate the global economy, including creating competing standards and systems for cross-border business activities. These geopolitical dynamics will transform the trajectory of globalization in 2025 and beyond, influencing the markets from which organizations can source inputs and products, as well as where they can invest or sell.

In recent years, these geopolitical rivalries have, of course, also led to significant wars and conflicts — which are unlikely to end in the near term. Heightened volatility and tensions in diplomatic and economic relations could also trigger new cross-border conflicts in 2025.

This geopolitical context will be influenced by other disruptive forces that are transforming the global operating environment. The global economy is set for steady yet underwhelming GDP growth in 2025, with differing economic trajectories remaining a key feature. The generative AI (GenAI) revolution will continue, which EY analysis estimates could lift global GDP by US$1.7 trillion to US$3.4 trillion over the next decade and meaningfully impact over half of the workforce globally. Meanwhile, over-50s comprised more than one-quarter of the global population for the first time ever in 2024 — with their share projected to continue to grow in the coming years. And following Earth experiencing the warmest three days on record in July 2024, climate change impacts will persist in 2025.

All this disruption creates significant challenges for policymakers. Newly elected governments have fresh mandates to try to tackle these challenges. But high debt levels will impose fiscal constraints on many governments around the world, complicating efforts to deliver on promises made during the global elections supercycle — particularly the more populist proposals. The need for both funding and financing may create opportunities for the private sector to play a role in addressing societal priorities.

Within each of these three themes are trends and developments that will accelerate transformation and force executives to rethink their business models and strategies.

Top 10 geopolitical developments in 2025

Transition from elections to policymaking

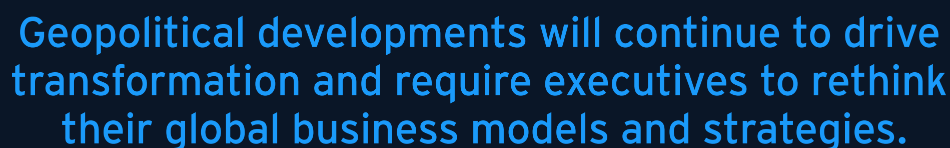
1. Populist policy influences
2. Taxation conundrums
3. Demographic divides

Economic competition and sovereignty

4. De-risking and dependencies
5. Digital sovereignty
6. Climate and competition

Geopolitical rivalries

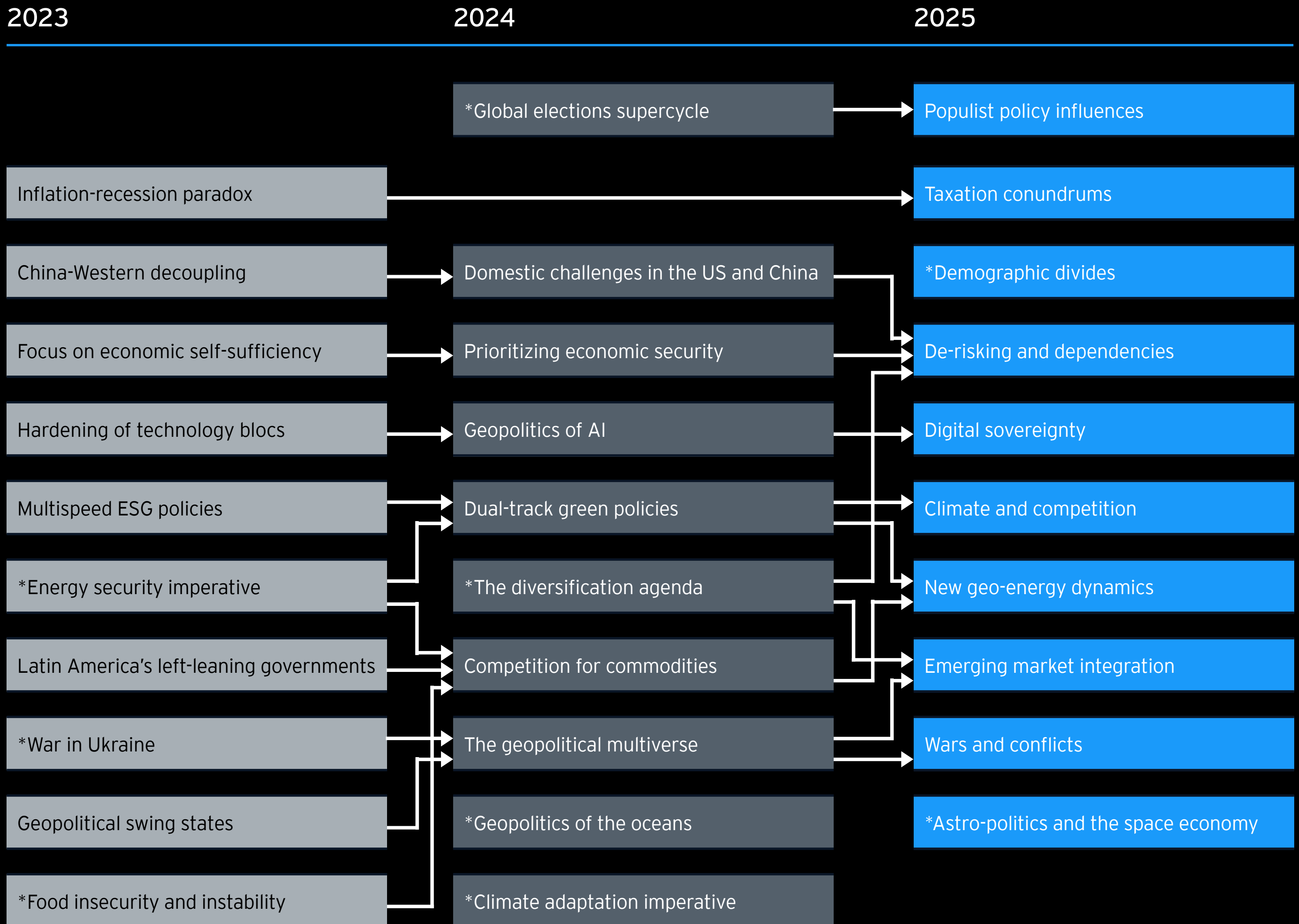
7. New geo-energy dynamics
8. Emerging market integration
9. Wars and conflicts
10. Astro-politics and the space economy



Geopolitical developments will continue to drive transformation and require executives to rethink their global business models and strategies.

Figure 1. Many of the top geopolitical developments in 2025 have evolved from prior years

Top 10 geopolitical developments by year



Note: * indicates a new development for the year.

Sources: EY Geostrategic Outlooks for 2023, 2024 and 2025.

Geostrategic actions to successfully transform

The transition from elections to policymaking, economic competition and sovereignty and geopolitical rivalries will pose both challenges and opportunities for leaders around the world.

Each of the developments explored in the 2025 Geostrategic Outlook will affect organizations 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 an organization's sector and geographic footprint and the strategic choices that its executives make.

Designing and implementing an effective geostrategy, as we explore in our book, *Geostrategy by Design*, will be key to thriving amid the transformations driven by this geopolitical environment. What specific actions can organizations take to shape the geopolitical future with confidence in 2025? We identify three no-regrets geostrategic moves that executives should take to adapt to the market disruptions and strategic transformations posed by the top 10 geopolitical developments in the year ahead.

Conduct political risk diligence for suppliers, market entry and transactions.

As economic security policies and diversification trends continue, it is increasingly important for executives to weave political risk assessments into their decision-making processes regarding changes in their operations, strategies and transformations. Key actions to take include:

- Prioritize transparency when diversifying to new markets to identify and mitigate any underlying exposure to companies or products from countries that are geopolitical rivals with your home country. (De-risking and dependencies)
- Assess investment opportunities associated with industrial policies to incentivize or mandate local research, development and production in artificial intelligence (AI) algorithms, semiconductors and network infrastructure. (Digital sovereignty)
- Determine how inconsistent climate regulations could affect cross-border interoperability of operations and long-term sustainability strategies. (Climate and competition)

Use strategic foresight to build resilience to future uncertainty.

Geopolitical rivalries are creating a volatile and uncertain outlook for the global operating environment. Strategic foresight methodologies, such as scenario analysis and tabletop exercises, enable executives to systematically manage future uncertainty to have more confidence in their strategic decisions. Key actions to take include:

- Recognize how multiple, simultaneous energy transitions could affect strategy and compliance and consider renewable energy availability and attractiveness in investment decisions. (New geo-energy dynamics)
- Explore which emerging markets are likely to provide the strongest commercial opportunities and consider in which scenarios market entry, expansion or exit decisions should be made. (Emerging market integration)
- Identify any strategic footprint shifts or operational changes that can be made today to increase resilience to different potential conflict scenarios in the future. (Wars and conflicts)
- Rethink research and development plans and investments to foster new skill sets and develop greater operational resilience. (Astro-politics and the space economy)

Engage with stakeholders to safeguard and shape strategy.

In the new era of selective globalization – in which there are diverging paths for geopolitics, economic policies and company strategies across different sectors – the political dimension of strategy will continue to rise in importance. Engaging with stakeholders – including policymakers, regulators, civil society groups, employees, investors and customers – enables executives to plan and adjust strategy to incorporate these responsibilities and risks. Key actions to take include:

- Develop communications strategies to handle sensitive political issues internally and externally as you mitigate operational and reputational risks arising from geopolitical developments. (Populist policy influences)
- Collaborate with trade and industry bodies, investors and other stakeholders to highlight the impact of potential tax changes and help governments form efficient taxation policy. (Taxation conundrums)
- Engage with policymakers to make the economic case for migration and advocate for flexible labor mobility frameworks that are conducive to accessing and retaining talent. (Demographic divides)

1. Populist policy influences

The 2024 global elections supercycle strengthened the representation of populist, anti-establishment and incumbent parties in some governing bodies — including governing parties losing their majorities in South Africa and India and the re-election of Donald Trump as US president — even as many mainstream parties adopted more populist policy positions. The roots of this trend have brewed for years in the form of economic disparities that worsened after the global financial crisis, the COVID-19 pandemic and the onset or intensification of conflicts that contributed to high inflation. Perceived threats from immigration and broader national identity issues also contributed to populists' appeal in some countries. **In 2025, populist influences will likely motivate protectionism, limit immigration, put green policies under pressure and could weaken governing institutions.**

Protectionist trade and industrial policies will remain a priority for governments with populist influences (see de-risking and dependencies). The US will continue to lead this effort, as the incoming Trump administration aims to dramatically expand tariffs and reshore critical supply chains and manufacturing production. The new European Commission will also make increasing use of trade-defensive tools, such as tariffs, and step up scrutiny of foreign direct investments in strategic sectors. In emerging markets, this trend will increasingly manifest in resource nationalism, as governments from Mexico to Indonesia seek greater state involvement in the resources sector or higher value-added processes to occur domestically.

Reducing immigration will also be a populist priority in many host countries (see demographic divides) — even as programs to attract certain skill specializations continue in some cases. This will be pronounced in Europe given stronger political representation of far-right parties in many jurisdictions. Anti-immigrant sentiment has jumped most significantly in Sweden and Germany, according to IPSOS survey data. The EU and many national governments will implement additional measures to reduce immigration, which could include the processing of asylum applications outside of Europe. And in the US, the Trump administration is expected to use a variety of tactics to reduce immigration, particularly across the southern border. The US may also deport some immigrants and reinstate a travel ban targeting certain countries.

Climate policies will likely come under pressure, due to both ideological opposition to environmentalism and economic concerns about undue costs for households in the short term (see climate and competition). In Europe that means that parts of the "Green Deal" — such as the planned ban on combustion engines beginning in 2035 — might be weakened or discarded. In the US, President-elect Trump has indicated he will shift the regulatory environment to favor oil and gas production while reducing support for green technologies. In Indonesia, there are concerns that deforestation could start rising again beginning next year. And Canadian Conservative Party Leader Pierre Poilievre — who may become prime minister after the October 2025 election — advocates removing the country's carbon tax.

The rise of populist and extremist parties — such as in Europe — will create less stable coalition and minority governments, which may create challenges in agreeing and implementing new policies. In some countries, the populist surge could also weaken governing institutions. In Mexico, for instance, many international observers have expressed concerns about recent judiciary reforms. More broadly, the pattern of some leaders seeking to consolidate their power by weakening state institutions — for instance, after opposition successes in local elections — is likely to persist.

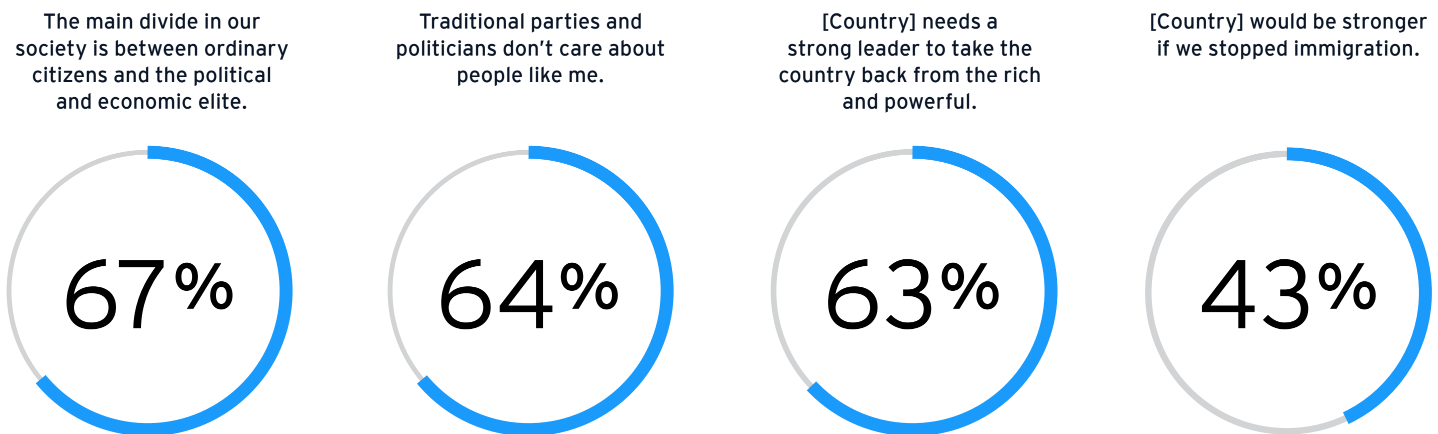
Geostrategic actions to shape your future

- **Assess talent risks associated with immigration policies.** Growing anti-immigrant sentiment will likely make some markets less able to attract talent from abroad — and more likely to seek to block immigrants willing to perform low-wage jobs. Moreover, tougher immigration policies have the potential to affect businesses' ability to acquire work permits for employees from abroad. This could exacerbate existing talent shortages across the skills spectrum. Businesses should assess their reliance on foreign talent across their operations — paying special attention to markets in which anti-immigration sentiment is high — and determine whether they should consider relocating operations based on workforce availability. For instance, several global manufacturers diversifying their supply chains have recently expanded into Central and Eastern Europe, using talent skills and availability as key factors when evaluating alternative locations.
- **Use scenario analysis to plan for policy uncertainty.** Many global companies used scenario analysis to assess potential policy changes in key geographies during the global elections supercycle in 2024. The need for scenario planning remains, though, as many elections produced fragmented political leadership, especially in multiparty systems, as new, smaller parties gain ground at the expense of traditional ones. This can result in weakened leaders that struggle to implement their policy agendas or come under pressure to deviate from their traditional policy orientation. These dynamics elevate the risk of policy reversals and surprises. Executives should verify that their policy monitoring and government relations teams have sufficient resources to be effective in this more uncertain political and policy environment.
- **Prepare for social unrest and reputational risks.** Stronger political representation of populists as a result of elections increases the likelihood of social activism and could lead to a more polarized operating environment. Moreover, reputational risks for businesses or investors can increase if they become associated with one side of the debate or the actions of a relevant political actor. Companies must evaluate their exposure to potential operational and reputational risks and consider mitigating measures. This should include an assessment of how to handle sensitive political issues both internally and externally with a comprehensive communications strategy. For instance, EY teams recently helped a European life sciences company create a new global and regional public affairs strategy to align with rapidly shifting government priorities in areas such as innovation and trade.

To explore which sectors are most impacted by this development, click here.

Figure 2. Populism is rising as a majority of people around the world feel powerless and excluded

Global country average of respondents agreeing with each statement



Source: Ipsos Populism Survey 2024, https://www.ipsos.com/sites/default/files/ct/news/documents/2024-02/Ipsos-Populism-Survey-2024.pdf.

2. Taxation conundrums

Governments around the world are grappling with the challenge of managing high and rising levels of debt, with the International Monetary Fund (IMF) estimating that global public debt will reach US$100 trillion at the end of 2024. The average debt to GDP ratio increased from 104% in 2019 to 113% in 2023 for members of the Organisation for Economic Co-operation and Development (OECD). And the African Development Bank reports that while African governments' public debt ratios have stabilized to around 60% of GDP, external debt servicing costs continue to rise. Coming after the 2024 global elections supercycle, governments are attempting to manage their debt levels while avoiding politically unpopular and economically controversial austerity policies. **In 2025, new governments will explore alternative strategies to reduce their debt burdens, including potential increases in taxes on corporates, assets and high-income households.**

The political and policymaking landscape around budget deficits, rising government debt levels and taxes is complicated by the expectations of citizens who have grown accustomed to certain levels of public services and social benefits. Any perceived reduction in these areas can lead to public backlash, social unrest and government changes, via the ballot box or otherwise (see populist policy influences). The pressure is on governments around the world to find innovative solutions that can reduce debt without visibly impacting public services — particularly given more populist policy environments.

One policy that many governments are increasingly considering is raising taxes on high-income earners and corporations. Such policies are often politically attractive because they avoid placing additional burdens on lower- and middle-income households. For instance, France's government proposed in its 2025 budget a plan for €12 billion in tax increases on large companies and another €2 billion on high-income households. The UK government is also targeting tax increases on companies, via an increase in employer national insurance contributions, and the wealthiest citizens.

Another avenue being explored is the closure of tax loopholes and the improvement of tax collection efficiency. There are reports, for example, that China's tax authorities are more robustly enforcing an existing tax on overseas investment income of wealthy individuals. Some Asia-Pacific jurisdictions have also heightened transparency measures regarding tax incentives and treaties. These approaches have the added benefit for governments of being perceived as more equitable by the public.

Finally, some governments are turning to targeted industry-specific taxes. For example, digital services taxes aimed at large technology companies or environmental taxes on carbon-intensive industries are being implemented or considered in various jurisdictions. Chile introduced a new mining royalty tax last year, for instance, and Canada introduced a digital services tax in 2024.

Not all governments will make the same policy choices. And some are likely to buck this trend. China looks set to increase its central government debt levels to manage an economic slowdown — although some economists continue to raise concerns about elevated state and local debt levels. Argentina is expected to continue its fiscal austerity program, aimed at reducing rampant inflation. And in the US, the Trump administration will likely push Congress to extend most or all of the expiring provisions in the 2017 Tax Cuts and Jobs Act and further reduce the corporate tax rate.

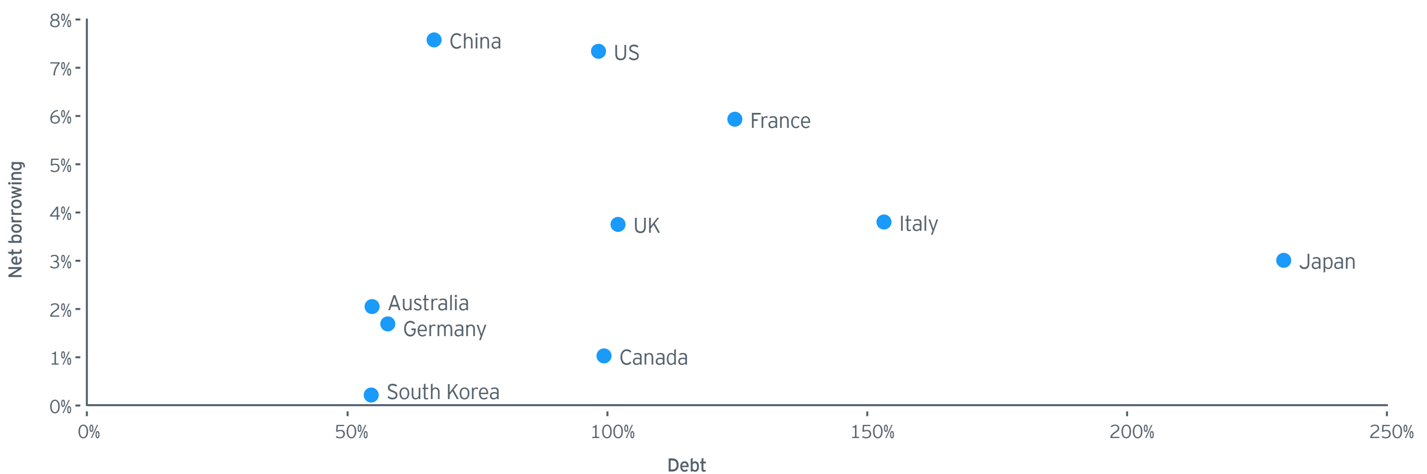
Geostrategic actions to shape your future

- **Incorporate government debt dynamics into financial planning.** Historically high sovereign debt levels in many markets could increasingly affect the cost and availability of capital for both governments and companies. And if governments need to dedicate rising portions of their budgets to debt servicing costs, they may accumulate more debt or possibly forego new investments that could stimulate economic growth. Companies should assess the potential impact on their revenue growth targets if governments shift spending priorities. In extreme cases, unsustainable government finances could lead to sovereign debt crises. Executives should also engage in scenario or contingency planning for securing working capital in case financing challenges arise. And if companies are exposed to high-risk emerging markets, they should consider establishing crisis management teams to manage the liquidity and repatriation implications of a potential sovereign debt crisis.
- **Adapt tax and finance strategies to align with company purpose.** Both national tax policies and BEPS 2.0 Pillar Two initiatives will impact multinationals, which may necessitate a re-evaluation of their data systems, structures, tax obligations, and approach to risk and controversy. Many multinationals have already begun voluntarily publishing tax data, including information about their tax strategy. This can contribute to positive stakeholder relationships around brand, corporate citizenship and transparency, which may ultimately translate into shareholder value. Executives should consider whether in certain markets they should go beyond the new reporting requirements and contribute to wider corporate goals around transparency and external stakeholder engagement.
- **Manage stakeholder relationships.** Many governments will be balancing social policies and tax increases. Policymakers, companies, investors and citizens form a complicated network of stakeholder relationships that need to be managed when it comes to tax policy. With the increasing pressure on governments to expand health and social care, companies are likely to face higher tax bills in many markets. Any tax policy changes have the potential to create both winners and losers. Working together with trade and industry bodies, investors and other stakeholders, companies should highlight the likely impact of taxation policies, especially where they may lead to a relocation of assets or capital. Executives should seek to be seen as providing potential solutions to help advise governments in forming efficient taxation policy rather than being viewed as trying to minimize their own tax burden.

To explore which sectors are most impacted by this development, click here.

Figure 3. Many governments are continuing to borrow amid already high debt levels, elevating the need for new revenue

Government net borrowing (% of GDP) and government debt (% of GDP)



Note: All data are 2025 forecasts.

Sources: Oxford Economics; International Monetary Fund; EY analysis.

3. Demographic divides

As populations age rapidly in many markets, workforces are shrinking, and public finances are under strain. Meanwhile, a large share of young populations in many emerging markets offer the potential for growth if new labor force entrants have sufficient job opportunities. But the lack of such economic opportunities heightens the risk of social unrest, political instability and cross-border migration. With the OECD reporting the number of new immigrants hit a record high of 6.5 million in 2023, immigration is a polarizing issue in many host markets. **The interplay of aging and youthful populations and immigration will increasingly shape domestic and global political dynamics in 2025.**

Labor markets in advanced economies and some emerging markets, such as China, will face increasing strain in 2025 as large shares of workers reach retirement age and there are limited numbers of new entrants to the labor force. This will worsen demographic pressures and dependency ratios, particularly in countries with large elderly populations, such as Japan (30% aged 65+), South Korea (18%) and China (14%). Strikingly, the EU (22%) is projected to enter a phase of permanent population decline, starting in 2025 — with the working-age population declining faster than total population in many markets. As a result, competition for young, skilled talent will intensify, which may lead to targeted immigration policies and incentives to retain workforce participation.

As fiscal burdens from health care and pensions rise, more governments will seek to implement cost-saving measures, such as pension cuts and tax hikes. Retirement ages are set to increase in more than half of OECD countries under current legislation, and China will follow suit in 2025. These reforms may be politically divisive and risk triggering social unrest, as seen in widespread protests in France following the decision to raise the retirement age in 2023. In some markets, aging populations will increasingly stay in the workforce well past traditional retirement age. This may expand their economic productivity for longer but could also create the perception of limiting economic opportunities for younger workers.

Younger generations in some societies will continue to be frustrated by the lack of economic opportunities (see populist policy influences). Although they can be a powerful engine for economic growth — as demonstrated by China leveraging its youthful workforce for decades to transform into a global production hub — if job opportunities are limited, youthful populations risk leading to social unrest. This will remain a major driver of cross-border migration in 2025, particularly in economically weak regions with poor governance, such as in some parts of Sub-Saharan Africa and Central America, where populations under the age of 25 exceed 40%.

Although migration to developed markets could help address labor shortages and provide more workers and government revenue to support aging populations, it will remain a divisive political issue in host markets given populist policy influences. Policy debates on tighter immigration controls in 2025 will be prevalent in the US and Canada, and it will be a central issue in Germany's federal elections amid rising anti-migrant sentiment. Diverging stances on immigration will further strain the EU's internal cohesion. More governments may seek to leverage migrant flows for their own geopolitical purposes, which would increase the risk of geopolitical tensions and domestic unrest.

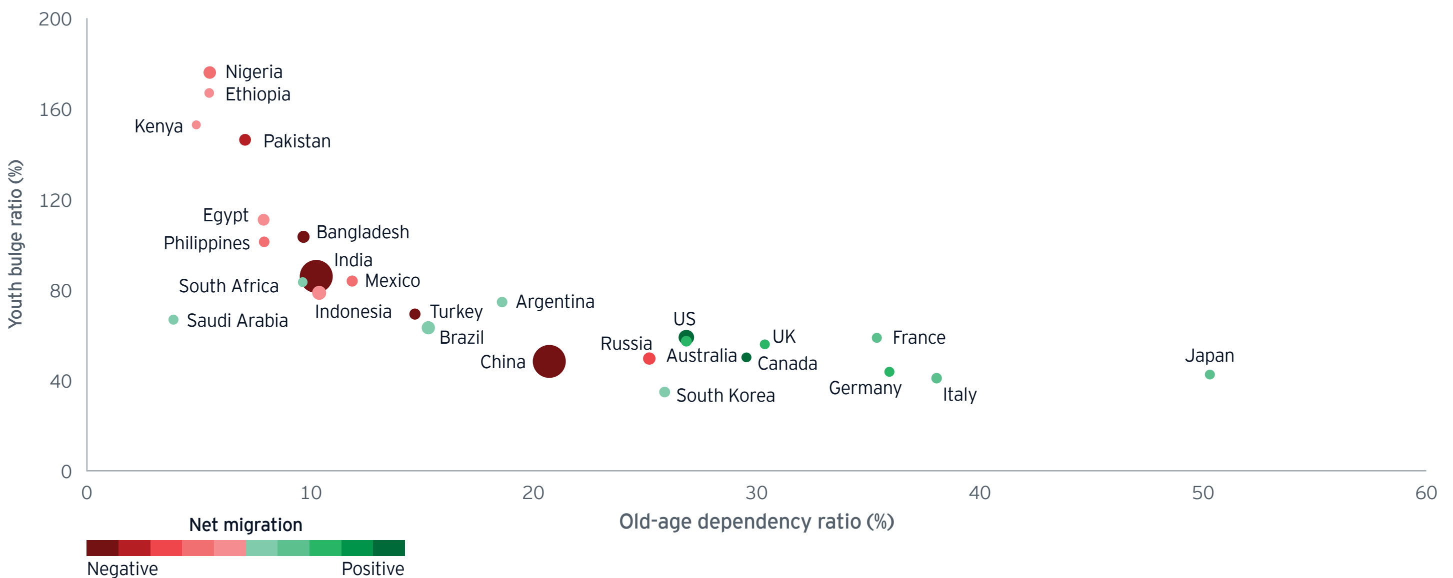
Geostrategic actions to shape your future

- **Prepare for sociopolitical instability risks.** Demographic pressures, such as youth bulges in unstable regions and aging populations in advanced economies, can trigger political unrest and shifts in migration patterns, disrupting supply chains and dampening sales and revenue growth. Instability can increase operational and compliance risks, especially in countries with tightening regulations or escalating social tensions. Rising labor costs and shifts in workforce availability due to migration will further complicate talent strategies. Companies must develop robust risk management frameworks and contingency plans to safeguard stability and protect business continuity from external social and political risks.
- **Prioritize workforce resilience and talent strategies.** The politics of demographics will significantly impact human capital, with talent shortages in aging markets driving up labor costs and limiting access to skilled workers. Shifts in immigration policies will constrain cross-border labor mobility, disrupting global operations and impacting supply chains. As a result, companies may experience slower growth, rising recruitment costs and increased compliance risks. Companies in strategic sectors may also face greater talent compliance requirements requiring naturalized personnel when staffing initiatives with national security implications. Executives should proactively implement strategies to retain and develop talent and diversify recruitment efforts globally. There is also an opportunity to engage with policymakers to make the economic case for higher migration and advocate for flexible labor mobility frameworks.
- **Adjust investment and market entry strategies.** Changing demographic patterns will alter market potential and investment risks across regions. Aging populations will shift consumer demand in developed markets to different goods and services, providing opportunities for health, insurance and other sectors. Youthful regions, such as Sub-Saharan Africa and South Asia, will present new growth opportunities for some product categories but may carry heightened political and economic risks. Shifting migration patterns and regulatory changes could also impact market stability and opportunities to support cross-border remittances. Companies should reassess market entry strategies, prioritize investments in high-growth regions and adopt flexible strategies to capture emerging opportunities while mitigating risks in volatile markets.

To explore which sectors are most impacted by this development, click here.

Figure 4. Distinct demographic pressures based on population structure and net migration patterns pose different political risks

Demographic age groups (% of total population), selected countries



Note: The size of the bubble indicates relative size of the total population. The old-age dependency ratio is the proportion of people aged 65 and over relative to the working age population (15–64). The youth bulge ratio is the percentage of the population aged 0–24 relative to the prime working age population (25–64). All data is for 2023.

Source: United Nations World Population Prospects 2024; World Bank.

4. De-risking and dependencies

Governments are increasingly melding national security and economic goals, using industrial policies and trade protectionism to promote greater domestic manufacturing of critical products. According to Global Trade Alert, the number of trade interventions has increased more than 200% over the past five years and almost 400% over the past decade. Economic flows are fragmenting along geopolitical lines or being redirected through "connector economies" — emerging markets that have advantageous locations and preferential trade agreements across major blocs. **In 2025, governments will accelerate the use of economic security measures, creating an increasingly complex web of supplier relationships across countries and companies.**

Many economic security policies aim to enhance domestic production and competition in strategic industries, such as advanced technology (see digital sovereignty) and energy transition technologies (see climate and competition). In 2025, the EU will continue to implement the economic security strategy introduced in 2024, which includes provisions to strengthen investment screening. The European Commission may introduce new tariffs, such as the October 2024 levy of up to 45% on Chinese electric vehicle (EV) imports. The success of rightist parties in several European elections in 2024 may increase the odds of greater economic security measures in 2025.

In the US, the Biden administration introduced or increased tariffs on a number of Chinese products in the energy, construction and semiconductor industries in 2024. The incoming Trump administration will likely explore imposing the proposed universal tariff of at least 10% on all US imports, with a higher rate on goods from China and possibly Mexico. US goods trade deficits will be a motivating factor driving trade policy. The countries most exposed to unfavorable US trade policy changes include China, Mexico, Canada, Vietnam and Germany.

Many emerging markets are seeking to be "connector economies," maintaining trade and investment flows with all major economies, including China, the EU and the US. Governments in these markets will continue to compete for private investment. For instance, India will likely continue its existing Production Linked Incentives Scheme to promote domestic manufacturing in 13 key sectors. And Mexico's new president, Claudia Sheinbaum, has confirmed that nearshoring will be an important part of her economic strategy in 2025. Preferential access to the US market will continue to be a benefit, as the latest EY CEO Outlook Pulse ranks Mexico fourth globally (and first among connector economies) as a capital investment destination in the next year.

Southeast Asia is likely to remain the top destination for foreign direct investment (FDI) among emerging markets — a position it has held for three years, according to UNCTAD — thanks to policies encouraging FDI, enhanced regional economic integration and trade agreements with a variety of other countries (see **emerging market integration**). ASEAN, hoping to build upon this success, announced a new regional plan to promote itself as a unified investment destination across key sustainable sector value chains in the 2025–30 period.

New EY research shows that FDI is also growing rapidly in Gulf Cooperation Council (GCC) countries, such as the United Arab Emirates and Saudi Arabia, as governments execute national development strategies to diversify their economies, boost advanced technology and clean energy industries, and create more high-skilled jobs.

Geostrategic actions to shape your future

- **Expand investment playbooks.** Governments across the world's largest economies and in connector economies will continue to implement industrial policies to incentivize or mandate local production — particularly in strategic sectors such as advanced technology and energy. Executives should explore opportunities to leverage related tax breaks, subsidies and state-guaranteed investments. Companies domiciled in connector economies may also be valuable strategic alliance or acquisition targets, as multinational firms seek partnerships with local firms to access new markets, regional expertise and expanded supply chains. For example, EY teams spoke with a global life sciences company that is shifting part of its supply chain to Southeast Asia, forming collaborations with domestic companies to help navigate new regulatory environments and leverage local experience.

- **Prioritize transparency amid supply chain diversification.** As the US, EU and China continue to introduce economic security policies and governments in connector economies provide investment incentives, many companies with headquarters in all geopolitical blocs are likely to shift portions of their supply chains to Southeast Asia, India, emerging Europe and Latin America. There are potential opportunities for companies to reduce geopolitical risk exposure through new or simplified supplier relationships. But diversification to new markets may not reduce underlying exposure to companies or products from countries that are geopolitical rivals with a company's home country. For instance, a Korean diversified manufacturing firm relocated operational assets to reduce geopolitical risks but is still exposed via its raw materials suppliers. This highlights the need to confirm that executives have full visibility into their more diversified supply chains.

- **Adapt trade and finance strategies to shifting dependencies.** In response to the surge in trade restrictions and tariffs, companies should reassess their global trade strategies and supply chain finance to mitigate risks from geopolitical tensions. Those prioritizing diversification should explore supply chain restructuring strategies and leverage financial instruments to hedge against tariff impacts. Similarly, finance teams should consider tariff impacts to product pricing strategies. Executives should also verify compliance amid evolving global trade rules and more complex supply chain relationships. For example, a leading electronics supplier looking to reduce its reliance on manufacturing in Asia utilized a digital supply chain model to provide an integrated view of critical factors, such as direct and indirect tax implications and customs duties in new markets.

To explore which sectors are most impacted by this development, click here.

Figure 5. Global dependencies become more complicated as supply chain distance from the original supplier and to the end customer increases

Global value chains by number of intermediaries

Source: The graphic is a reproduction of Graph 5B in H. Qui et al, Mapping the realignment of global value chains, BIS Bulleting No. 78, 2023. The graphic format has been modified here, but it aligns with the source data.

5. Digital sovereignty

The rapid development and adoption of AI systems have accelerated the strategic importance of semiconductors, data and network infrastructure. As a result, digital sovereignty — defined as a state's ability to control the digital data, network and tools in its country without depending on foreign hardware and software — has become an increasingly important goal of governments around the world. **In 2025, the growing strategic importance of digital technology hardware and software will motivate governments to implement more policies and regulations to control their digital spaces and de-risk from geopolitical rivals.**

The geopolitics of AI will be a primary driver of governments seeking to innovate and scale their domestic AI ecosystems, with the goal of boosting their self-reliance in AI while de-risking related supply chains from geopolitical rivals. Semiconductors and their input materials will remain a focus of export controls and investment incentives. For instance, China is likely to build on recent momentum in domestic semiconductor production, as the US and EU continue to implement their respective CHIPS Acts to incentivize local semiconductor manufacturing. Governments in other countries, including India and Saudi Arabia, will seek to build similar capabilities.

Given how critical data is to train and unlock value from AI systems, data localization and data protectionism initiatives are likely to persist. US regulators will likely continue to implement the 2024 law that prohibits data brokers from making available personally identifiable sensitive data to China, North Korea, Russia or Iran. The EU will continue to implement its ambitious data regulatory agenda. Increased regulatory activity in the Middle East, South America and Africa is also likely to persist. For instance, Saudi Arabia recently tightened the transfer or disclosure of personal data to foreign entities without adequate data protections.

At the multilateral level, the World Trade Organization (WTO) will seek to advance its interim Agreement on Electronic Commerce. Led by Japan, Australia and Singapore, this agreement is meant to support cross-border digital commerce. It does not, however, provide for free cross-border data flows or prohibit national data localization requirements — thus allowing governments to continue to implement such measures.

Governments will also focus on the security and governance of network infrastructure (the hardware and software that enable network connectivity and communication). The growing importance of such infrastructure to the AI sector is evidenced by the new intra-agency taskforce to coordinate the development of large-scale data centers and power infrastructure in the US. Policymakers will also continue to de-risk network infrastructure supply chains; for instance, restricting companies headquartered within countries deemed adversaries from supplying network components (see de-risking and dependencies). This is part of a push to secure network infrastructure, including both cybersecurity and physical security — with the latter concern rising following alleged attacks on seabed cables in recent years.

Controlling network infrastructure is also seen by some governments as a means of safeguarding domestic stability. Controlled internet shutdowns are increasing — occurring in 39 countries in 2023, up from just 28 five years earlier, according to AccessNow. Such intentional disruptions of internet or electronic communications to exert control over the flow of information are particularly likely to occur in conflict zones or times of political strife, such as elections or mass protests.

Geostrategic actions to shape your future

- **Establish robust governance for data and technology.** Despite some progress on international frameworks, the continued proliferation of data localization and data protection laws will further complicate cross-border digital architectures and data sharing, both within and across companies. Executives should monitor proposals for new laws and regulations governing data and AI, and how they are designed and implemented, in key markets. Executives also need to establish robust governance frameworks for AI, data and related intellectual property to verify compliance with relevant trade, investment and data usage regulations — while also satisfying contractual obligations that may be impacted by digital sovereignty regulations or other new stakeholder expectations. The ability to anticipate and flexibly adapt a company's data, server, storage and encryption keyholder locations will be critical.

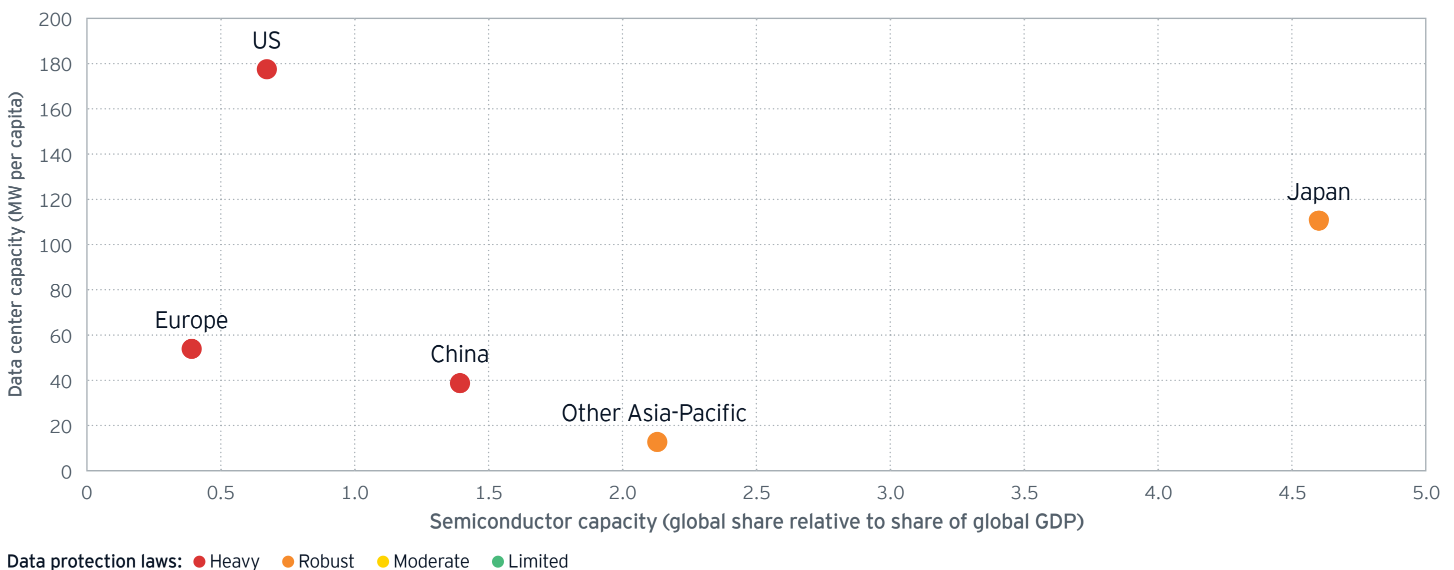
- **Re-evaluate digital and technology supply chains.** The push to onshore, nearshore and friendshore digital and technology supply chains will likely intensify, which will affect companies across all sectors that rely on these products. With many companies' goods and services increasingly both using and generating data, restrictive or protective data policies and regulations could affect a wide range of business functions across the value chain; for instance, on "smart car" components and capabilities. An energy company operating Western countries' infrastructure had to assess geopolitical risks in its supply chains to meet rising national security requirements in public procurement, for instance. Executives need a detailed understanding of their data and technology value chain and where de-risking policies could cause disruptions or cost increases, and adapt their supply chain strategy accordingly.

- **Identify geopolitically driven investment opportunities.** Governments will continue to implement industrial policies to incentivize or mandate local research, development and production in AI algorithms, semiconductors, network infrastructure and related technologies. Executives at companies in these sectors should identify and assess opportunities associated with related fiscal incentives, targeted subsidies and state-guaranteed investments. Such opportunities will likely be most robust — and pose lower political risks — in companies' domestic markets and in markets aligned with their home country government. And executives at companies that rely on AI and network infrastructure services should assess these investment trends to identify markets in which growth opportunities are likely to be strongest.

To explore which sectors are most impacted by this development, click here.

Figure 6. All leading markets for data centers and semiconductor production have strong data protection laws

Data center capacity (MW per capita) and semiconductor production capacity (global share relative to share of global GDP), selected markets



Note: Data is latest available. For the semiconductor capacity data, the US reflects Americas data and Europe reflects Europe, Middle East and Africa data.

Sources: International Data Corporation (IDC); SEMI; International Monetary Fund; DLA Piper; EY analysis.

6. Climate and competition

Given political risk shocks to the global energy market in recent years — and the frequency of climate shocks with increasing human and financial costs — green technologies have become "strategic" for many policymakers. Clean energy investments have surged 40%. Such policies will be in focus next year as nearly 200 countries revise their climate strategies under the Paris Agreement. But broader economic growth and competition priorities — and a perception that climate action negatively impacts these efforts — mean some policymakers will de-emphasize climate policies. **In 2025, climate policies will be driven by the potentially countervailing forces of three competitiveness imperatives: economic, geopolitical and price.**

First, in an effort to boost economic competitiveness, governments will continue to invest in domestic green technologies. In the US, already allocated climate funds and Inflation Reduction Act investments will likely be spent, although the Trump administration may redirect unallocated funds and will focus on fossil fuels development. The new European Commission will present its Clean Industrial Deal to advance deployment of US$380 billion by 2030 and favor European bidders in procurement. And China plans to invest US$500 billion in solar and wind in 2025 and to make US$800 billion in grid upgrades by 2030. Other governments, including Australia, Brazil, India and Japan, will also invest more in domestic green tech.

But if green ambitions conflict with economic growth, policymakers are likely to prioritize competitiveness. The EU will likely reduce the environmental "regulatory burden," seen as its main competitiveness challenge. It will also push for a level playing field globally, such as with the Carbon Border Adjustment Mechanism (CBAM). In the US, the Trump administration is expected to boost fossil fuels production and exports and repurpose unallocated climate funds. And Brazil, which will host COP30 in 2025, aims to become the world's fourth largest petroleum producer to boost export revenues.

Second, geopolitical competition will also influence the climate agenda in 2025, as some global powers compete for influence among emerging markets by helping develop green economies and climate resilience. In 2025, China will boost global green development finance, including 30 new energy projects in Africa and others in Latin America and Asia. The EU will respond with green infrastructure initiatives, including in ASEAN and Central Asia.

Geopolitical tensions may also affect the pace of climate action. On the one hand, conflicts and sanctions can accelerate green investments, such as Russia's invasion of Ukraine motivating the EU to diversify energy sources. On the other, the US and EU's moves to reduce their dependence on Chinese minerals and green exports could increase costs and slow the energy transition (see de-risking and dependencies). Emerging markets' resistance to policies such as the EU's CBAM will further complicate climate dialogues.

Finally, the price competitiveness of green technologies will also be a focus in 2025. According to EY research, 67% of consumers cannot afford greener alternatives. Some governments may introduce subsidies and other incentives to reduce the prices of green products, but budget deficits could limit governments' ability to close the cost gap (as discussed in taxation conundrums).

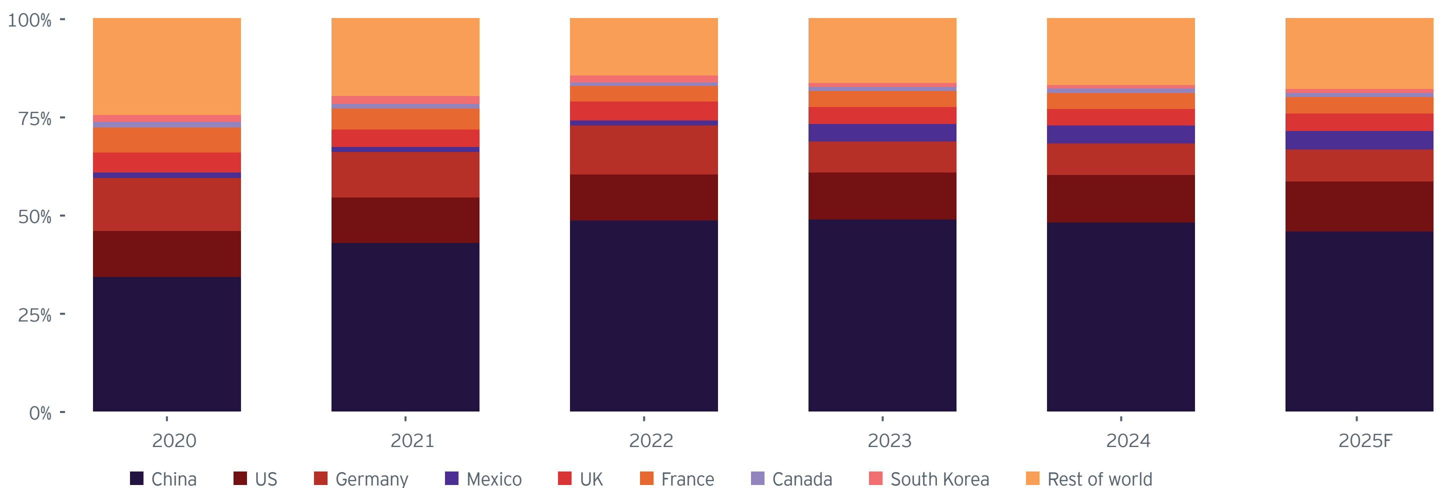
Geostrategic actions to shape your future

- **Maintain a long-term focus on sustainability strategies.** Inconsistent sustainability regulations – such as ESG reporting rollbacks in the EU and fragmented global carbon pricing – will create uncertainty and hinder cross-border interoperability. And regulatory backtracking on sustainability measures, such as carbon taxes, may offer temporary fiscal relief but would also heighten regulatory unpredictability. Companies should closely monitor climate policy changes in 2025, especially regarding phaseout timelines for polluting technologies, as these developments can significantly affect financial projections and investment plans around clean technologies. More broadly, executives should integrate climate competitiveness into their long-term strategies.
- **Adapt growth strategies to government priorities.** Following the global elections supercycle in 2024, shifting policy priorities may redirect support and incentives toward different priorities. Companies should align their strategies with these emerging priorities to help unlock access to government incentives and lower capital costs for green projects. For example, EY teams provided a US-based manufacturer with political risk insights regarding the host government's green policy agenda to guide an M&A decision in Europe's clean tech sector. Infrastructure and construction companies should monitor for procurement or public-private partnership opportunities, especially in energy infrastructure, such as grid upgrades. Executives at companies with low-carbon goals or requirements should monitor such policy developments to identify where long-term green growth opportunities will be strongest.
- **Incorporate climate competitiveness into supply chain strategy.** Governments will continue to incentivize or require companies to de-risk from their geopolitical competitors. As they diversify their supply chains, executives should assess climate competitiveness as part of their due diligence for transactions and market entry or expansion decisions. For instance, electricity mixes in target markets will vary based on domestic clean energy capabilities, energy efficiency strategies and fossil fuel reliance, which will affect companies' ability to meet carbon emissions targets or comply with certain regulations in other markets, such as reporting on scope 3 emissions in their supply chains. Countries' comparative advantages in clean energy – such as wind and solar – could create investment opportunities in markets such as Australia.

To explore which sectors are most impacted by this development, click here.

Figure 7. Policy incentives and market forces are expanding adoption of clean technologies such as EVs, as China remains the leader

EV global sales share by region



Source: Statista Market Insights.

7. New geo-energy dynamics

In recent years, climate policies and industrial policies have infused new dynamics into the geopolitics of energy. Annual renewable energy generation has averaged 6.2% growth in the past five years compared with only 1.2% for nonrenewables, according to International Renewable Energy Association data. And geopolitics rose to the third-highest risk in the latest edition of EY Top 10 business risks and opportunities for mining and metals companies. **Government policies will continue to shift geo-energy dynamics in 2025, with uncertain implications for the speed of the global energy transition.**

The EY Energy and Resources Transition Acceleration (ERTA) model identifies four drivers of change to the global energy system: technology advancement, commodity supply, consumer engagement and government policy. Of course, policymakers will continue to try to influence the other three levers via investment incentives, carbon prices, regulatory changes, green subsidies and other policies. In recent years, the US Inflation Reduction Act (IRA), EU Green Deal, China's industrial policy focus on green manufacturing among "new quality productive forces" and other countries' climate initiatives have accelerated the production of EVs, photovoltaic cells and wind turbines. This shift is elevating the importance of metals and minerals to the global energy system because these materials are critical inputs to renewable energy and battery storage technologies.

The expanding importance of metals and minerals will continue to create new global energy powers. Countries with significant mineral reserves and production will continue to gain geopolitical sway, including Chile (copper), Indonesia (nickel), Australia (lithium) and the Democratic Republic of the Congo (cobalt). China will continue to be the most significant new energy power in the near term, accounting for about 70% of rare earths mining, 33% of zinc mining and 44% of global copper refining, according to US Geological Survey data. And China's EV manufacturers account for more than half of the global stock of EVs, according to the International Energy Agency.

China's strong market share will continue to motivate the US, EU and others to try to diversify their supply chains to reduce their reliance on a single source of supply (as discussed in de-risking and dependencies). These de-risking policies will continue to include friendshoring efforts for raw materials and other inputs — such as the Minerals Security Partnership — and industrial policies to support domestic production for manufactured products, such as solar panels, wind turbines and EVs. For instance, Europe will continue to try to catch up to both China and the US in midstream battery manufacturing capabilities.

The geopolitical motivations of industrial policies will reinforce current competition and tensions between international blocs and alliance networks. The duplication of efforts across blocs could increase prices for energy transition technologies and slow their adoption, at least in the short term (as discussed in climate and competition). This, in turn, will empower countries with alternative domestic energy resources — with nuclear power in particular likely to enjoy a continued renaissance. And it will lengthen the time frame of both the energy transition and the geopolitical and economic relevance of leading oil and natural gas producers, such as the US, Saudi Arabia, Russia and Iran.

Geostrategic actions to shape your future

- **Identify geo-energy growth opportunities.** The new geo-energy dynamics will continue to elevate competition for critical minerals, which is likely 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. This likely contributes to mining and metals CEOs having the highest confidence about growth in their sector in the September 2024 EY Global CEO Confidence Index. Executives across sectors should identify such growth opportunities driven by geo-energy dynamics and government policies and incorporate them into their strategic decisions.

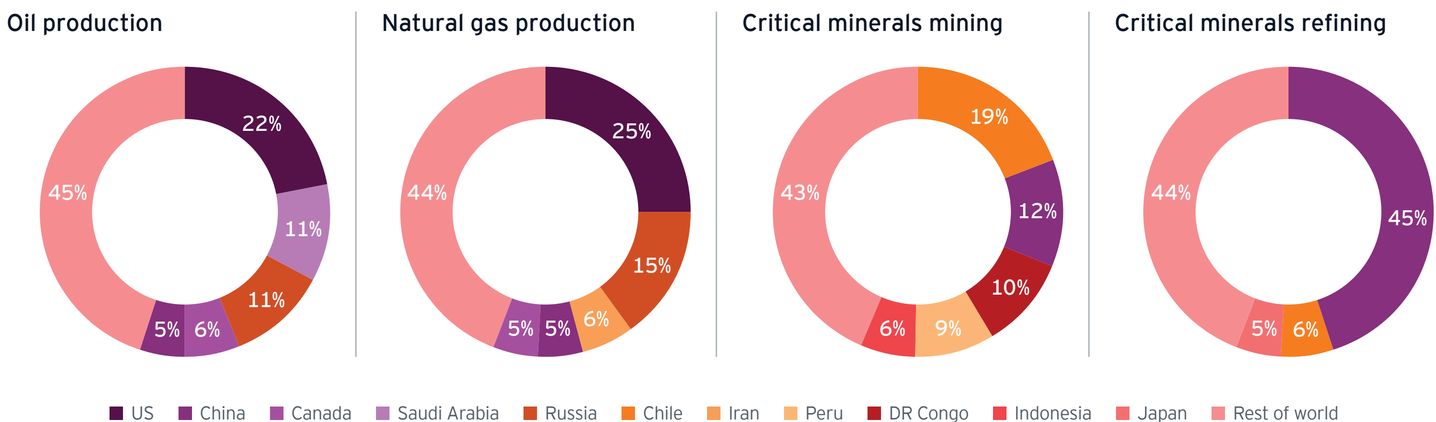
- **Increase energy supply chain transparency.** US rules restricting critical minerals from foreign entities of concern could be replicated by other governments in relation to the origin of minerals and metals for strategic products. The transparency of energy supply chains will become increasingly vital, both in terms of geopolitics and embedded carbon emissions. This could create challenges for some downstream metals producers and their customers in other sectors, such as manufacturers or EVs and renewable energy technologies, given the large number of inputs and the complexity of some of the extraction, refining and production processes. Executives across all sectors should validate that they have visibility into their supply chains for energy resources and identify how to build resilience.

- **Recognize how multiple energy transitions affect strategy and compliance.** Governments will continue to make different energy policy trade-offs based on their ideology, availability of resources in their economy (commodities, capital and capabilities) and their geopolitical alliances. These policy trade-offs will send signals to the market and consumers that ultimately determine progress on the energy transition — which means there are actually multiple energy transitions unfolding around the world simultaneously. Executives with more ambitious carbon reduction goals — or with more stringent sustainability requirements in their home markets or other key jurisdictions — should consider renewable energy availability and attractiveness in their investment decisions regarding market entry and expansion.

To explore which sectors are most impacted by this development, click here.

Figure 8. Geo-energy power is diversifying to include critical minerals producers

Share of global energy production, selected products



Note: Data is latest available. Critical minerals include copper, cobalt, lithium, nickel, graphite and magnet rare earth elements.

Sources: International Energy Agency; US Energy Information Agency; EY analysis.

8. Emerging market integration

Emerging markets and developing countries have become more unified and vocal about long-standing grievances regarding their underrepresentation in multilateral institutions and more recent criticism of the perceived double standard regarding developed countries' economic pressure against their adversaries, such as Russia. This has coincided with emerging markets' almost doubling their share of global GDP, from just 22% in 2001 to almost 40% now, according to World Bank data. Trade, investment and broader economic ties have also strengthened among emerging markets. **In 2025, the dual push for emerging market integration and alternative multilateral institutions is likely to create a more complex global operating environment.**

Emerging markets will continue to advocate for reforms in global institutions to better represent their interests. South Africa's G20 presidency in 2025 will be a key opportunity to do this, building on recent progress that includes the African Union (AU) joining the G20 and the UN's Pact for the Future including calls for expanding permanent Security Council membership to African countries. By June 2025, the IMF is expected to propose new methods of calculating the distribution of quotas and voting shares to "better reflect members' relative positions in the world economy." Progress is likely to be slow, however, given the difficulties in multilateral governance reform.

The institutionalization of alternative groups led by emerging markets will therefore continue. The BRICS Summit, to be chaired by Brazil in 2025, will likely promote the use of local currencies in cross-border trade and investment and could seek to advance the BRICS Pay system. It will also promote partnerships in strategic sectors, such as energy, agriculture and infrastructure. Other regional initiatives will also seek to facilitate economic connections among emerging markets. For example, the Forum on China-Africa Cooperation Beijing Action Plan (2025–27) includes joint efforts to promote investment and commerce.

Chinese trade and investment will play a major role. China is the top trading partner of more than 120 countries around the world. And the latest EY China Outbound Overseas Investment report shows Chinese investments to Belt and Road Initiative (BRI) countries reached US$15.5 billion in the first half of 2024, a year-on-year increase of 9.2%. Continued Chinese outbound investment will likely focus on markets with robust industrial capacity, such as ASEAN economies, and those that fulfill strategic supply chain needs, such as critical raw materials (as discussed in de-risking and dependencies). However, concerns from governments and civil society groups may arise regarding Chinese investments and exports crowding out domestic markets, especially in markets that have a high debt burden, political opposition to the market dominance of Chinese firms or geopolitical tensions with China.

Other large emerging markets will also drive emerging market integration. For instance, India is now the third largest source of FDI in Gulf Cooperation Council (GCC) members. It is likely to continue to develop its trade and investment ties in the region, including via its 2024 bilateral investment treaty with the UAE and the nascent India-Middle East-Europe Economic Corridor. Some experts point to Brazil increasing its food exports to other emerging markets as a geoeconomic strategy. And members of the Organization of Turkic States — which includes Turkey and Kazakhstan — are likely to continue to increase efforts to foster economic integration.

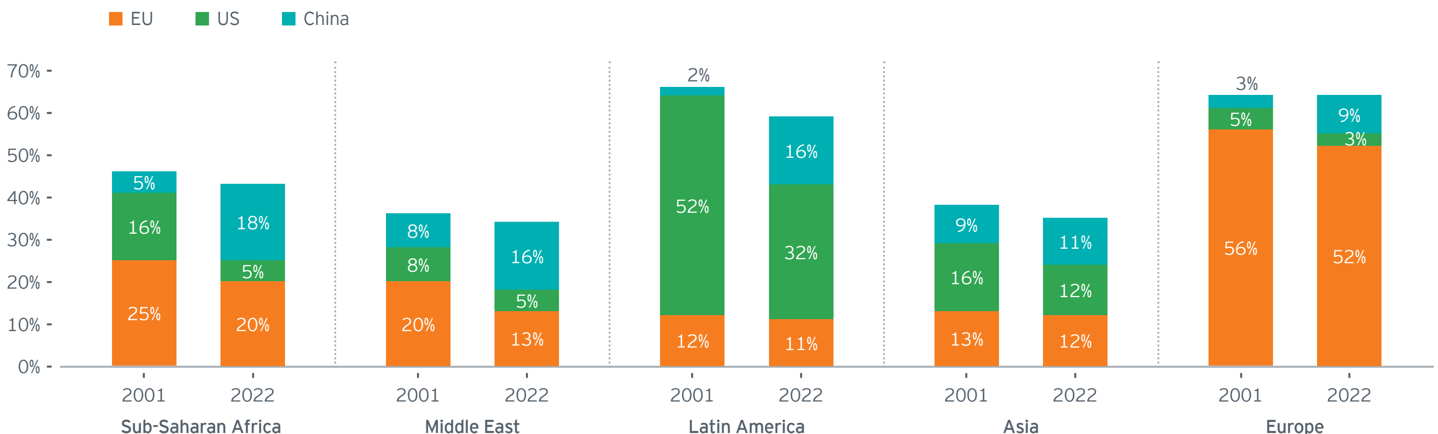
Geostrategic actions to shape your future

- **Align investment strategies with geopolitical dynamics.** Companies headquartered in both emerging and developed markets are likely to have growth opportunities amid a potential investment boom in emerging markets. Executives should seek alignment with key funder countries' investment priorities to enable market access and openness to new partnerships. They simultaneously need to account for any downside political risks associated with such investments, including data and IP security regulations, export controls, sanctions and investment-screening regimes. Companies in more strategic sectors — such as semiconductors — will be most exposed to such risks.
- **Capitalize on global supply chain diversification.** Economic security policies by governments in major economies will likely be a primary driver of investment initiatives in emerging markets. Governments and companies in these regions should try to capitalize on this interest to attract new capital and business relationships. The US, China and the EU will continue to try to de-risk from one another in some strategic sectors, though, so executives should maintain full visibility into their supply chains to manage any reputational and compliance risks with customers in these markets.
- **Identify commercial sales opportunities.** As emerging markets expand their trade and investment relationships with each other and with developed markets, many emerging market economies could provide new sales and revenue opportunities. Most emerging market governments welcome investment from multiple sources to boost their domestic economies and avoid dependence on any one country. Companies that supply emerging industrial ecosystems may benefit most directly, while those in other sectors could benefit as economies develop and spending power increases. Executives should identify which emerging markets are likely to provide the strongest commercial opportunities for their company and consider entering or expanding in those markets.

To explore which sectors are most impacted by this development, click here.

Figure 9. China's share of trade has increased in all emerging market regions, as the shares of the US and EU decline

Share of total trade with great powers by region (%)



Note: The countries represented in each region are emerging market and developing countries, using IMF country categorization. Data reflects total exports and imports in current US$.

Source: International Monetary Fund (IMF).

9. Wars and conflicts

The 2020s are on pace to have more wars than any decade in the past half century, rising from an average of 45 annually in the 2010s to 56 so far this decade, according to an analysis of UCDP/PRIO data. Military spending has jumped 24% in the past 10 years, with just three countries — the US, China and Russia — accounting for more than half of all spending in 2023, according to data from SIPRI. **In 2025, as current wars continue, the escalation of tensions within and between countries and groups could spark new wars in both the physical world and in cyberspace.**

The war in Ukraine will continue, both via combat operations and in cyberspace. But public opinion data from the Kiev International Institute of Sociology shows that an increasing share of Ukrainians are willing to give up some territory in order to achieve peace and preserve independence. A potential reduction in US military support may accelerate this trend. This shift in Ukraine's potential openness to territorial concessions could encourage Russia, which has suffered far more casualties and is diverting significant economic resources to the war effort, to negotiate. However, as was the case during the almost two years of armistice discussions during the Korean War, fighting will likely persist even if negotiations begin.

The cycle of violence in the Middle East is likely to persist despite continued efforts by multiple governments to negotiate lasting cease-fires. Direct military attacks between Iran and Israel in 2024 risk escalating the conflict further in 2025. Militant groups, such as Hezbollah and Hamas, are likely to continue their attacks against Israel, even as Israel damages their capabilities. And the Houthis show little sign of ending their attacks on ships in the Red Sea, although this could change if the new US administration takes more aggressive action against them.

Other conflicts — often less reported — do not show signs of ceasing. The civil war in Sudan — which the UN reports has led to an estimated 124,000 deaths and more than 11 million displaced people — will continue, with the potential for conflict to spread to neighboring countries. Civil wars in Myanmar and Yemen also appear set to persist in 2025. In Syria, the overthrow of the former regime after years of civil war creates an uncertain outlook for both the country and the broader region. And the Sahel region of Africa will likely continue to experience political instability, terror group activity and armed conflict.

A variety of potential flash points could spark new conflicts in 2025. Although the CNS North Korea Missile Test Database shows a decline in activity this year, the high number of missile tests in preceding years and North Korea's new "comprehensive strategic partnership" treaty with Russia raises the risk of military action. And, as highlighted in the 2024 Geostrategic Outlook, maritime boundary disputes and zones of competing influence could lead to clashes, including in the Indian Ocean, the South China Sea and the Arctic.

Governments and non-state actors will likely continue to utilize a variety of methods to achieve their objectives. Cyberspace will remain a primary arena of conflict, with the Council on Foreign Relations reporting that 34 governments are suspected of sponsoring cyber attacks in the past decade. The use of espionage and subversion will also continue to make a comeback.

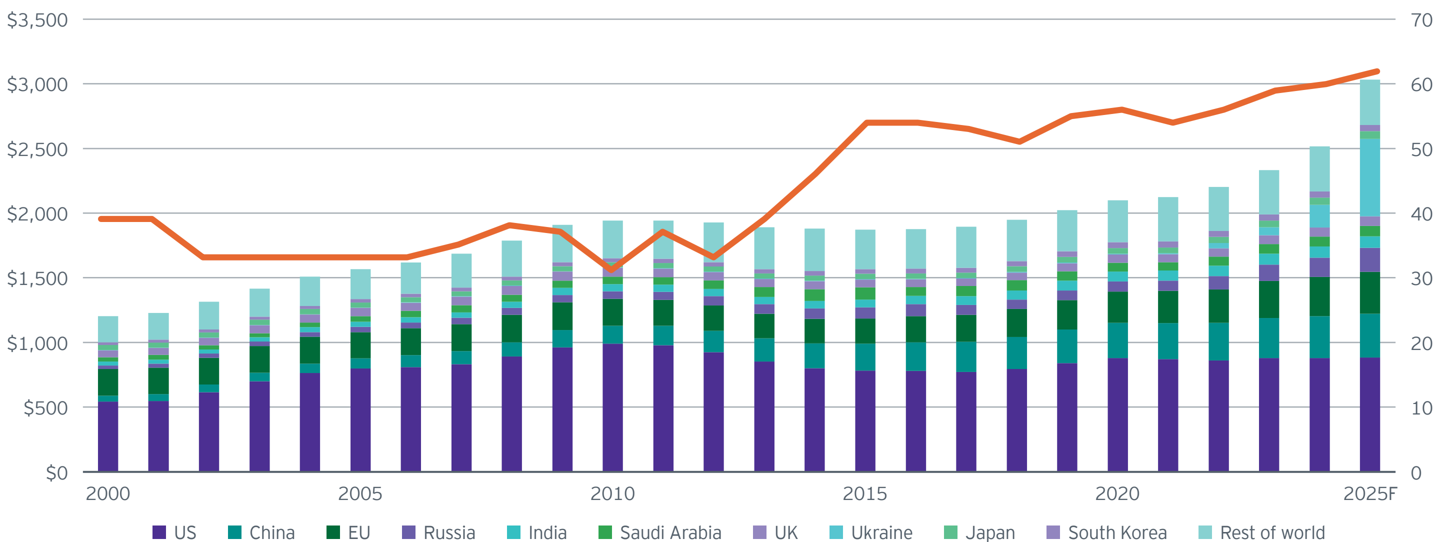
Geostrategic actions to shape your future

- **Enhance operational contingency planning.** While global companies have largely adapted their operations and supply chains to avoid disruptions from current wars, the risk of new or enlarged conflicts will continue to pose potential disruptions, delays and costs. Executives should maintain full visibility into their supply chains and personnel security, assessing how potential conflicts could impact their company. Executives should also consider conducting tabletop exercises and engaging in other crisis response and operational contingency planning to identify any strategic footprint shifts they could make today to increase resilience in the future. For instance, a financial services company used scenario analysis to identify signposts to monitor US-China geopolitical tensions and determine if and when to adjust its financial structure or capital portfolio.
- **Invest in cyber resilience.** As both governments and non-state actors engage in cyber espionage and cyber warfare, companies are increasingly likely to be caught in the cross fire. Companies in strategic sectors – such as semiconductor manufacturers, AI companies and those with vast amounts of or sensitive personal data – may be at risk of direct cyber attacks. And all companies are at risk of indirect impacts to their operations from cyber attacks on critical infrastructure, such as transportation and energy networks. Executives should evaluate cybersecurity risks across their company's value chain and invest in cyber resilience.
- **Monitor and assess sanctions risk and compliance.** The longer the war in Ukraine persists, the more likely the US, EU and other Western countries will be to impose secondary sanctions on countries and companies that are perceived to be supporting Russia's war efforts. The US and others may also strengthen enforcement of current sanctions on Iran or impose new ones. This dynamic sanctions environment could create new operational, financial and reputational challenges for companies around the world. Executives should make sure their compliance teams have sufficient monitoring capabilities to fully meet their obligations and to avoid adverse sanctions impacts.

To explore which sectors are most impacted by this development, click here.

Figure 10. Military spending is rising as the number of wars around the world increases

Military spending (US$ billions; left axis); active wars (count; right axis)



Note: Historical data through 2023 is an aggregate of the underlying data. Forecast data for 2024 and 2025 is based on the continuation of trends based on a three-year rolling average.

Sources: Stockholm International Peace Research Institute (SIPRI); UCDP/PRIO Armed Conflict Dataset version 24.1; EY analysis.

10. Astro-politics and the space economy

The transformation of space from a scientific domain to an economic and geopolitical arena is reaching an inflection point. The number of countries with satellites in orbit more than doubled from 46 in 2000 to almost 100 in 2023. And the space economy is projected to grow at nearly twice the rate of global GDP over the next decade, with the World Economic Forum forecasting that it will exceed US$1.8 trillion by 2035. The increasing affordability of launch capabilities is fueling space-based applications for the economy on Earth, including critical infrastructure, transportation and military applications. **In 2025, the multipolar space race will reach new heights as countries compete for technological capabilities and resource claims.**

The proliferation of countries with state or commercial presence in space will continue. The US will remain the leader, with nearly 70% of the world's satellites, according to the Union of Concerned Scientists. China will continue to expand its space leadership as a national strategy; it is already the only country with its own space station. India and Japan have launched new space research initiatives underscoring private sector innovation, while the UAE and Saudi Arabia see space investments as enabling economic diversification goals.

Satellite communication and space data enables more than half of the critical infrastructure of advanced economies, according to the OECD. The navigational and Earth observation capabilities from space are increasingly critical for logistics, mobile networks, energy transmission and financial transactions. Hyperspectral imaging now permits the identification and monitoring of critical mineral deposits on Earth. And there are a variety of companies exploring opportunities to mine the moon and asteroids. As government and private sector investment grows, the challenge of regulating resource claims and economic activity in space will grow (which relates to new geo-energy dynamics). For example, Japan, Luxembourg, the US and other countries have passed laws permitting rights to extracted space resources.

The growth of the space economy is also expanding the cybersecurity risks to communications and critical infrastructure. For example, anti-satellite activities have been employed in the war in Ukraine. With estimates of nearly 25,000 satellites by 2030, the susceptibility to disruption of data in space and its transmission back to Earth is likely to grow. More broadly there is growing recognition that modern military capabilities are reliant on space, including, for instance, almost 90% of UK capabilities, according to King's College London.

The dual-use nature of space tech and the space economy's potential to impact strategic sectors will extend geopolitical bloc dynamics to space. In the US, the Trump administration is expected to prioritize space exploration and national security capabilities. And China will continue to collaborate with Russia and others on the International Lunar Research Station.

These astro-political tensions exacerbate some of the risks associated with a growing space economy. For instance, there are more than 130 million space debris objects (e.g., outdated or decommissioned satellites) in orbit, according to the European Space Agency, creating growing collision risks that could damage assets in space. The 1967 UN Outer Space Treaty, which is meant to establish norms and govern activities in space, is increasingly seen as unable to manage an increasingly congested orbital environment.

Geostrategic actions to shape your future

- **Identify new space-based innovations and investments.** Investment in space companies was US$8.5 billion in the July 2023 to June 2024 period, following a peak of more than US$12 billion in 2021. New space-based assets provide the potential to create previously undefined commercial opportunities, requiring all companies to consider their space-based opportunities. Zero-gravity environments offer new frontiers spanning medicine, agriculture, manufacturing innovation, energy production and even new insurance markets. Companies across sectors should explore investments in space-related innovation and identify opportunities that leverage the data, resources and capabilities that the space economy provides both in outer space and on Earth. Executives should also anticipate new cross-industry partnerships and potential government funding to harness these new opportunities.

- **Incorporate the vantage of space into operations.** Satellites and space-enabled navigation will continue to transform transportation and logistics across industries. Earth observation capabilities now provide new monitoring capabilities for infrastructure assets on land, including biodiversity impacts, air and water pollution, and disaster response. This creates opportunities for firms to gain more efficiency and transparency in supply chains using space-based technologies that were previously only available to governments. Executives should explore how these new observational capabilities can create new opportunities and enhance their infrastructure and supply chain resilience. As one example, the EY Space Tech lab transformed a client's network rail operations by combining advanced satellite data and an AI platform to provide ongoing monitoring and efficiency gains.

- **Build future cyber and data resilience.** Reliance on a more crowded and competitive space technology landscape will increase business and government vulnerabilities for data transmitted in and from space. It will also enhance Earth monitoring around resources and climate events, providing greater data and insight capabilities for AI. Success in this new paradigm will require new investments in response to intensifying cybersecurity stresses and the need to protect data and intellectual property in space and on land. Executives will need to rethink research and development plans and investments to foster new skill sets and develop greater operational resilience.

To explore which sectors are most impacted by this development, click here.

Figure 11. The dramatic rise in satellites and other space technologies creates both commercial opportunities and geopolitical risks

Annual number of objects launched into outer space

Note: Objects launched include satellites, probes, landers, crewed spacecrafts and space station flight elements launched into Earth's orbit or beyond. Europe includes members of the European Union and the European Space Agency. Historical data is through 2023. Forecast data for 2024 and 2025 is based on the continuation of trends based on a three-year rolling average.

Sources: United Nations Office for Outer Space Affairs; Our World in Data; EY analysis.

Sector impacts

The top 10 geopolitical developments in the 2025 Geostrategic Outlook will have broad-based impacts on the transformation agendas of organizations across sectors and geographies. But each development is likely to have more direct impacts on how certain sectors transform, particularly in the near to medium term (see Figure 12). The key market themes and business impacts for 18 sectors are outlined in this section – as well as how leaders across sectors can prepare for geopolitical disruption and shape their future with confidence.

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

Summary of the top 10 geopolitical developments by direct sector impacts

	Banking and capital markets	Insurance	Wealth and asset management	Chemicals, oil and gas	Mining and metals	Power and utilities	Industrial products	Mobility, aerospace and defense	Consumer products	Retail	Health	Life sciences	Technology	Telecommunications	Media and entertainment	Private equity	Real estate, hospitality and construction	Government and public sector
Populist policy influences	✓		✓		✓				✓				✓		✓	✓		✓
Taxation conundrums		✓	✓		✓		✓		✓	✓	✓		✓		✓		✓	✓
Demographic divides	✓	✓	✓			✓			✓	✓	✓	✓		✓	✓	✓	✓	✓
De-risking and dependencies	✓		✓	✓			✓	✓	✓			✓	✓	✓		✓	✓	✓
Digital sovereignty	✓	✓	✓			✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Climate and competition	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓		✓		✓		✓	✓
New geo-energy dynamics				✓	✓	✓	✓	✓			✓		✓			✓	✓	
Emerging market integration							✓	✓										
Wars and conflicts	✓	✓	✓	✓			✓	✓	✓	✓	✓				✓			✓
Astro-politics and the space economy					✓			✓						✓				✓

Source: EY analysis.

Banking and capital markets

De-risking and dependencies are elevating the complexity of global supply chains and investment risks, making international operations more challenging and costly to deliver. Banks must re-evaluate their own global strategies given these complexities while seizing the opportunities to support their clients' changing financing needs.

The transition from uncertain election outcomes to policymaking should boost investment appetite and lending growth. Climate and competition and the global energy transition open new avenues for investment in renewable energy. They also necessitate a re-evaluation of existing loan portfolios, with a potential focus on reducing exposure to high-carbon industries.

Populist policy influences will likely perpetuate trends toward an increasingly fragmented regulatory environment for international banks. Ensuring adherence in each geography in which they operate will become increasingly complex and costly, both in core areas of compliance and risk management and new aspects, such as AI and data privacy — especially given that many governments are seeking to advance digital sovereignty.

Demographic divides present a challenge to adapt to the digital demands of a younger generation while keeping services accessible for all segments of the population. This evolution requires new workforce capabilities, but banks will likely continue to face a skills gap, which could be exacerbated by restrictive immigration policies.

Geopolitical rivalries add another layer of complexity, raising further questions around international strategies. Wars and conflicts are likely to continue to put banks at the center of implementing complex sanctions regimes and elevate the risk that they become targets of cyber attacks.

Insurance

Wars and conflicts threaten market stability, put operations in affected regions at risk and can disrupt insurance claims. The ability to diversify and share risks globally will also be more difficult, which impacts capital efficiency and the ability to remain price competitive. The rise in geopolitically motivated cyber attacks poses a significant operational risk to insurers and could lead to an increase in cyber insurance claims.

There is also rising demand for catastrophe insurance as climate-related disasters increase. Insurers need to manage the uncertainty of governments implementing climate and competition policies and maximize the opportunities this brings to develop cover for new types of green customers. As green finance becomes more prominent, insurance linked to sustainable projects could be a growth area. Insurers can also help existing corporate customers adapt their business models; embrace new technologies; and transition their risk portfolio with risk management, advice and new types of coverage.

Taxation conundrums point to governments' need to reduce debt and stimulate growth while balancing inflation and interest rates. Insurers will need a clear strategy for managing the impact of these economic policies on profitability.

Insurers will also need to navigate demographic divides and continue to develop their capabilities to offer more personalized propositions that can be adapted for all demographic groups. Increased longevity will impact insurance in terms of protection, pensions and health — especially where governments don't have the funds to address protection gaps. Utilizing new technology that facilitates the development of seamless, personalized propositions built on real-time and third-party data and predictive analytics will be key — although digital sovereignty regulations could complicate compliance.

Wealth and asset management

Wealth and asset managers will continue to prioritize geopolitics when making new capital allocation decisions. Geopolitical rivalries and associated regulations may limit outbound investment in certain markets or sectors. As some firms sharpen strategies around de-risking and dependencies and divest from certain countries, other regions, such as Singapore and the Middle East, may benefit from new business.

Demographic divides will impact firms' priorities. Younger clients — wealth inheritors, entrepreneurs and first-generation wealth creators — represent immense growth potential but have different needs that must be met. And aging populations require shifting the lens from wealth accumulation to ensuring retirement security with robust decumulation strategies.

Strategic M&A activity will continue as investment managers enhance their scale or scope. In certain countries, consolidation pressures will increase due to the interest rate environment. Regulatory changes will add to complexities and costs, especially due to post-election policy alterations. Investors will also confront new realities associated with taxation conundrums. Access to specialist talent may be impacted due to populist policy influences and increasingly stringent immigration rules.

Looking ahead, wars and conflicts heighten the risk of global payment systems being fragmented further by geopolitical blocs. This may impact record-keeping infrastructure and create opportunities for increased digitalization and use of blockchain. Cybersecurity will also remain a top-of-mind concern.

Firms must proactively create operational and portfolio resilience, including via the optimization of technologies such as AI, with a focus on digital sovereignty. And in an era of climate and competition, firms must continue to support transition finance by managing climate risk exposure and developing thematic funds.

Chemicals, oil and gas

The oil and gas sector continues to attract capital and generate high returns, supported by moderately high oil prices and low break-even costs. While the energy transition may reduce oil and gas consumption in the medium to long term, new geo-energy dynamics will likely support demand for oil and gas in 2025, as well as for specialized chemicals and materials essential for renewable energy technologies.

Volatility in long-term oil and gas demand and increasing regulatory pressures are leading to a strong push to prioritize shareholder returns and growth through M&A rather than capital expenditure. National oil companies are also diversifying into emerging markets to secure demand in the long run.

Climate and competition policies will also impact the sector as governments increasingly move toward more targeted tax credits and incentives to foster investment in the energy transition, which complicates compliance with these tax regimes. Differentiated approaches to carbon and other greenhouse gas emissions reporting and management are also a priority for leading oil and gas companies.

Significant escalation of ongoing wars and conflicts in regions with substantial oil and gas supplies could disrupt supplies or shipping routes and lead to price and supply volatility.

Governments' de-risking and dependencies policies may increasingly target chemicals used for strategic products, such as pharmaceuticals, semiconductors and green technology components. De-risking could also accelerate research and development in alternative or synthetic materials as part of the climate and competition agenda, spurring innovation in areas such as bio-based chemicals and recycled materials.

Mining and metals

Governments will continue to see metals and minerals as strategic products, given their centrality to the energy transition and powering green technologies such as EVs. The climate and competition agenda will continue to target critical minerals suppliers to reduce strategic dependencies. Such efforts will be motivated by new geo-energy dynamics, with the US, EU and other developed markets seeking to increase the production and refining of critical minerals in allied markets. These efforts will likely create new investment and growth opportunities for mining companies.

Meanwhile, populist policy influences have the potential to create headwinds for mining companies if they are accompanied by resistance from citizens and local interest groups that fear the adverse environmental impact of mining activities. EY research shows that miners recognize this risk, with environmental stewardship ranking as the second-highest risk and opportunity in 2025, while license to operate ranked fifth.

In traditional extractive countries, governments may also seek greater state involvement in the resources sector or mandate that higher-value-added processes occur domestically. And some policymakers may target miners as additional revenue sources as part of the taxation conundrums policy trend.

Astro-politics and the space economy will increasingly provide emerging investment and growth opportunities for mining companies, as countries compete for resources in space and explore mining the moon and asteroids. Meanwhile, new space technologies enabling the identification and monitoring of critical mineral deposits on Earth can facilitate the discovery of new business opportunities.

Power and utilities

Power and utilities companies tend to be heavily regulated in markets around the world, leading to more stable markets and customers. But several geopolitical developments point to potential changes for the sector in 2025.

New geo-energy dynamics and the energy transition more broadly are shifting the market demands on power and utilities companies. The current utility system was not designed for the energy transition; peculiarities of grid infrastructure and networks make it difficult to transport energy over long distances or store energy to smooth supply from intermittent sources such as solar and wind.

While these dynamics create challenges for power and utilities companies, climate and competition policies provide potential opportunities. Many governments are recognizing the need to invest in heat pumps, rooftop solar panels, batteries, small nuclear reactors and other green technologies that will enable electricity grids to adapt to the energy transition. The focus on flexibility and energy efficiency may create new investment and growth prospects in the sector.

The widespread adoption of AI — and the global economy's increasing reliance on data centers more broadly — will heighten demand for electricity because AI requires very high levels of data processing, which is energy intensive. With more governments prioritizing digital sovereignty, the number of data center locations is likely to grow.

Demographic divides could also affect the growth opportunities for power and utilities companies. Youthful markets with high population growth are likely to provide more opportunities in the coming years, while demand levels could fall in markets with aging or shrinking populations.

Industrial products

New geo-energy dynamics will affect many industrial companies, as they are often large energy consumers. The energy transition will continue to shift how and where energy is generated, which could create supply challenges but also opportunities for new investments. Geopolitical tensions could also affect the price and availability of critical minerals, hydrocarbon products and other raw materials that are needed for a range of inputs in the sector. Adding to the complexity, the potential for new or escalating wars and conflicts could also affect industrial manufacturers via their effect on global energy prices. For example, escalation of violence in the Middle East could lead to an increase in prices of oil, organic chemicals and bromine.

De-risking and dependencies policies will likely also have a significant impact. As governments in markets around the world continue to try to de-risk their supply chains from geopolitical competitors, some industrial products may be targeted as "strategic sectors" for these policies. This could create opportunities in accessing preferential government financing, tax credits or other subsidies for new capital expenditure products in some markets. The trend toward emerging market integration will likely also influence which markets provide diversification opportunities for new production and supplier relationships.

Industrials could face challenges related to fiscal policy as well. With many governments seeking to raise additional revenue to address high debt levels and taxation conundrums, corporations may face higher tax rates in some markets. Industrial companies could be particularly affected by taxes on carbon or other sustainability measures.

Mobility, aerospace and defense

De-risking and dependencies policies will have a significant impact on the mobility, aerospace and defense sector as companies try to de-risk from suppliers exposed to geopolitical volatility. The supply chains for automobiles and aerospace tend to be very long, so companies will need to prioritize which categories (raw materials, component assemblers, etc.) to onshore, nearshore or friendshore. The trend toward emerging market integration will influence which markets provide diversification opportunities for new production and supplier relationships.

Supply chain shifts associated with emerging market integration and wars and conflicts are pushing transportation companies to assess the risks of their routes. Insurance costs are likely to increase if they are forced to take on more risks.

For automobile companies, governments' push for digital sovereignty will likely continue to create compliance challenges around hosting data generated by connected vehicles. These regulations will affect which products can be offered in each market and could restrict certain companies from operating in some markets altogether.

The interplay between climate and competition and new geo-energy dynamics is also creating some challenges. Despite many governments' focus on fostering the energy transition, mobility companies are not seeing demand pick up as quickly for new energy products. And across the entire sector, the need for energy and critical mineral supply chains to align with geopolitical considerations poses an added challenge.

Aerospace companies are likely to have a variety of opportunities associated with astro-politics and the space economy. And defense companies may experience heightened demand for their products due to wars and conflicts.

Consumer products

Among the most significant impacts for the consumer products sector is likely to be demographic divides. Companies need to serve aging markets, such as Japan, China and many European countries. They also need to account for the challenges policymakers have in boosting fertility rates in these markets. In contrast, youthful and growing populations, such as in India, pose potential opportunities – both in terms of workforce and consumers.

The interplay between populist policy influences and taxation conundrums could also affect consumer products companies' location strategies. Trade tariffs, corporate taxes and immigration policies will likely impact decisions regarding whether to expand production in domestic markets or lower-cost locations abroad.

Geopolitical developments could also affect many consumer goods companies via their supply chains. Although de-risking and dependencies policies are not usually targeted at consumer products, companies in the sector may still experience delays, disruptions and cost increases as these policies ripple through global supply chains. Digital sovereignty is also likely to impact the cost and complexity associated with consumer products companies complying with regulations around sourcing traceability.

Wars and conflicts may also cause supply chain disruptions. More broadly, this development can negatively impact demand and sales by raising costs and damaging consumer confidence.

Climate and competition will affect some consumer products companies more than others. For instance, climate change and sustainability policies will affect agribusiness companies' risk management processes and sourcing decisions. And while climate policies will affect compliance in many jurisdictions, broader dynamics, including consumer preferences, will affect corporate strategies in markets that are sustainability leaders.

Retail

Retail CEOs are among the least optimistic in the most recent EY Global CEO Confidence Index, expecting geopolitical developments to impact their supply chains, commercial sales and technology adoption.

Wars and conflicts continue to disrupt global supply chains, imposing additional costs or delays on shipments. Nearshoring and diversifying supply chains is a long-term solution that leaves the sector still prone to short-term shocks.

Taxation conundrums are also likely to increase cost and complexity for retailers, particularly trade tariffs or border taxes, such as the EU Carbon Border Adjustment Mechanism. These will affect the underlying cost of the products retailers sell. Navigating complex and sometimes divergent tax policies between different jurisdictions will also test organizational capacity and increase compliance risks. Similarly, climate and competition policies could affect how retailers embed sustainability into their strategies, especially where retail operations span different countries with competing policies.

Retailers will need to take demographic divides into account as they adapt assortments to serve more diverse consumer needs, including in markets with immigrant populations. While certain product categories present growth opportunities in aging markets, labor force constrictions and the rise of peer-to-peer selling platforms will impact sales as younger consumers become more economically active.

Given technology's growing importance in delivering on consumer expectations, many retailers plan to combine their customer data with tools such as GenAI to improve customer experience and deliver new media or marketing services. Governments' digital sovereignty policies could restrict or prohibit sharing some of this data across borders, while protecting customer data against cyber attacks will remain a challenge.

Health

Health organizations will seek to tap the potential of AI to transform health care delivery while keeping patients safe. Amid a focus on digital sovereignty, governments are likely to continue to take action to regulate the use of AI in health care, given the potential life or death implications of flawed algorithms or the misuse of patients' personal health data. Health systems also must bolster their cyber defenses as hospitals and other operations continue to be key targets for cybercriminals.

Policies regarding climate and competition and new geo-energy dynamics also will have indirect effects on health systems, as extreme weather events continue to be a threat to health care supply chains. Climate change will likely bring on more extreme weather that disrupts supply chains and breeds new public health problems, such as vector-borne illnesses or increased respiratory ailments. Experts continue to argue for better public health surveillance. This is especially important in the current geopolitical environment, as wars and conflicts have led to viruses re-emerging in affected areas due to lack of vaccinations.

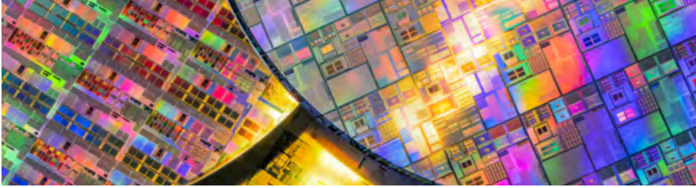
The interplay of taxation conundrums and demographic divides also will pose challenges for health systems already pressed by unsustainable budgets amid the need to deliver care to an increasingly aging and sickly population. Digital transformations can enable them to activate the reams of health care data the industry has to deliver more preventative care. Actionable data can also be the key to solutions to health inequities that are pervasive in certain parts of the globe.

Life sciences

Governments are increasingly targeting life sciences as part of de-risking and dependencies policies. 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. Policies and regulations are therefore likely to continue to include incentivizing or mandating greater supply chain resilience for life sciences companies. An increasing focus on restricting foreign direct investment in and from geopolitical rivals is also likely.

The push for digital sovereignty will also affect life sciences companies. Policymakers will continue to implement new laws and regulations to protect their citizens' personal data, including health-related data. This could restrict the ability of life sciences companies to leverage larger, cross-border data sets for research and development. Such policies could also restrict the markets in which life sciences companies can sell their products — with new revenue growth opportunities likely to be limited to markets with governments that are friendly with their home country government. Relatedly, with the increasing use of AI, life sciences companies will likely need to manage greater cybersecurity threats.

Demographic divides could create opportunities for life sciences companies. Demand growth for biotechnology and other life sciences products is likely to grow in markets with aging populations. And more youthful markets may enable companies to tap into large labor forces as part of their global supply chain diversification — although they may also face challenges associated with labor skills and availability and infrastructure quality.



Technology

Many governments consider the technology industry to be critical to their economic security, so it is at the heart of several geopolitical developments. In 2025, technology companies will need to navigate an increasingly complex landscape of countries with distinct de-risking and dependencies policies. Most directly, policymakers will prioritize digital sovereignty, implementing new cross-border standards and regulations to capitalize on the rapid growth of AI and semiconductor supply chains.

AI advancement is leading to a boom in data center investment and the redesign of energy infrastructure. Given new geo-energy dynamics and climate and competition, tech companies will increasingly prioritize innovation in their sustainability programs. Some are even exploring nuclear energy solutions, creating greater complexity. Companies should anticipate potential impacts from populist policy influences as AI data centers and new energy infrastructure are constructed in rural and suburban locations.

Getting ahead of potential taxation conundrums, tech companies will likely increase efforts to identify the right government entities, multilateral organizations and industry partners to engage more effectively with regulators and help shape the agenda. International collaboration through bodies such as the OECD or WTO could help inform the geopolitical conversation and avoid a patchwork of digital sovereignty regulations that limit the transformative potential of AI and other advancements.

Being proactive will enable technology companies to align their operations with the evolving geopolitical landscape. This will give forward-thinking companies a seat at the table as standards and regulations continue to be defined and redefined, with the tech industry itself driving a period of rapid technological evolution.

Telecommunications

Telecommunications infrastructure and services continue to feel the force of geopolitical developments worldwide. De-risking and dependencies are major determinants of evolving network supply chains, with moves to ban perceived high-risk vendors (HRVs) rippling across the sector. Transposing regional network security approaches into national regulation remains a work-in-progress, requiring operators to remain agile and responsive. At the same time, telcos must remain alert to policymaker efforts to broaden network supplier choice through Open RAN technology.

Changing imperatives in digital sovereignty are catalyzing more localization of data storage, with greater scrutiny of in-country data management and cross-border data transfer. National data privacy and protection frameworks are evolving to varying degrees at varying speeds, heightening the compliance challenge for telcos. Furthermore, data center operators may need to pivot their investment strategies as policymakers view data centers as increasingly important national strategic assets.

Meanwhile, growing demographic divides may well exacerbate pre-existing digital divides – for instance, for older, geographically isolated or less affluent groups – due to gaps in infrastructure reach and quality. Telcos should monitor for proposed new rules designed to protect vulnerable customers.

Finally, astro-politics and the space economy are redefining notions of connectivity, as low Earth orbit (LEO) satellites complement traditional terrestrial networks. Increasing state participation in the satellite industry may unlock new routes to providing connectivity in remote areas or extending the Internet of Things. This, in turn, could prompt operators to rethink their business models and ecosystem strategies.

Media and entertainment

Positioned at the heart of global discourse, media and entertainment companies can shape public opinion and policy through their content, wielding influence over narratives that impact societal and political dynamics. They also face unique risks associated with being conduits for information surrounding wars and conflicts. Geopolitical rivalries and populist policy influences may also lead to more stringent regulations, protectionist measures, censorship or limits on the international creative talent pool.

Demographic divides emphasize the importance of understanding regional consumer patterns and cultural nuances, while early recognition of macroeconomic signals — such as China's economic slowdown — will be vital for shaping growth strategies.

The push for digital sovereignty may force media and entertainment companies to invest in local data centers and shift data strategies to comply with diverse data privacy laws and local regulations. This will be especially true for the digital advertising ecosystem, particularly advertising models that rely on data and AI for content recommendations and behavioral or contextual targeting.

Taxation conundrums will lead to an evolving tax environment that may include digital services taxes. Alongside shifts in incentives for local content creation, this could alter where media and entertainment companies choose to invest and operate.

Policies associated with climate and competition will also affect companies' adoption of sustainable practices and optimization of energy use in production, routine operations and data centers. These policies will also affect companies with physical supply chains, such as cruise lines and theme parks, which must balance efficiency with resilience amid geopolitical tensions.

Private equity

While much of PE's exposure to geopolitical considerations occurs at the portfolio company level, certain fund-level considerations exist across the PE lifecycle.

Demographic divides, for example, have the potential to accelerate shifts in the fundraising process and PE's sourcing of capital — with aging populations putting governments under increasing pressure to find new ways of funding retirements, it is increasingly likely that private capital will be part of the equation. Already, many firms are focused on the development of vehicles designed specifically for retail investors, who currently hold just 3% of their assets or less in alternative investments.

As firms look to deploy capital, developments that include digital sovereignty and new geo-energy dynamics will impact the opportunity set. PE firms have been active partners in helping to onshore sensitive industries, such as semiconductors. As AI matures and the use cases multiply, PE will help build out the world's digital infrastructure by investing across the value chain. Energy investments may be an area of focus, given AI's tremendous appetite for electricity.

As governments continue de-risking and dependencies policies, nearshoring and friendshoring of supply chains will create new imperatives for PE firms to think more expansively about their portcos' vulnerabilities. At the same time, it will create opportunities to help build manufacturing capacity in new locales.

Lastly, as populist policy influences continue to take hold, regulatory pressures have the potential to become increasingly unpredictable. Sponsors are seeing increased scrutiny in many jurisdictions around antitrust, for example, as portfolios expand, and an increasing number of deals falls under regulators' purview.

Real estate, hospitality and construction

New construction projects are likely to be affected by de-risking and dependencies and new geo-energy dynamics. The price and availability of construction materials, equipment and the energy needed to run that equipment could all be affected by these geopolitical developments. Relatedly, geothermal energy requires specific infrastructure expertise, which could lead to growth opportunities for engineering and construction companies. It could also provide opportunities for infrastructure funds looking for stable long-term returns.

Governments could introduce stricter building codes as part of the climate and competition agenda. Developers might incur higher costs for sustainable and energy-efficient materials, although green financing options may expand in parallel. Over time, more resilient buildings could offset some of the decline in value for properties in high climate risk zones.

Digital sovereignty could compel real estate businesses to keep data within domestic environments, which may raise the expenses of running international real estate corporations. And such policies could pose challenges as the infrastructure sector embraces AI to predict potential issues and optimize resources across interconnected project phases.

Taxation conundrums will have a significant influence on the flow of capital to real estate and construction companies. And indirectly, tax policy effects on macroeconomic growth will affect demand for new buildings and construction projects.

Demographic shifts are impacting the real estate sector via the increased need for senior and assisted housing. Assisted living options with simplified technology support for health care provide an opportunity for companies looking to promote independent senior living.

Government and public sector

Governments will either contribute to or need to respond to each of the top 10 geopolitical developments in 2025. Policymakers — especially those newly transitioning into power or public office — face heightened challenges in crafting such responses due to decreasing social cohesion.

One of the most active policy areas is likely to be taxation conundrums. Many governments are facing higher debt and deficit levels, following years of stimulus spending and shrinking tax bases. How to pay for strategic transformations, such as decarbonization or developing a sustainable care economy, will be a key question confronting many governments as part of a broader focus on fiscal management.

In societies that are aging, managing growing demographic divides could include reforms to retirement ages, pensions and other social support systems, as well as efforts to boost population growth. The latter is likely to be challenging given popular skepticism of or opposition to immigration highlighted during the 2024 global elections supercycle.

These more populist policy influences are likely to lead to additional trade protectionism and industrial policies that focus on de-risking and dependencies. As industrial and digital sovereignty goals continue to link national security with economic performance goals, success will in part be driven by how the private sector companies adapt.

Tech and climate and competition between major economies will also continue increasing the importance of supply chain visibility and traceability to resilience, as cyber attacks on third-party suppliers grow. This competition will also play out in astro-politics and the space economy in 2025, potentially providing a new venue for wars and conflict.

About the Geostrategic Outlook

The EY Geostrategic Business Group (GBG) is a global network of geopolitical risk professionals with backgrounds in political risk, government policy, the public sector, strategy and academia. The GBG has years of experience helping clients to more strategically manage geopolitical risk. This expertise has led to the creation of a proven framework for the holistic and cross-functional integration of political risk management into broader risk management, strategy and governance. As explored in our book, *Geostrategy by Design*, companies need to implement four distinct activities required for a proactive geostrategy — and create a governance structure that weaves them together so they can effectively shape their future with confidence (see Figure 13).

The annual Geostrategic Outlook presents analysis by the GBG on the likely transformations in 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.

Scanning the external environment to identify political risks is the first step in implementing a geostrategy. As such, to select the top 10 geopolitical developments in the 2025 Geostrategic Outlook, the GBG first conducted a crowd-sourced horizon-scanning exercise in August-September 2024 to identify potential political risks. The scanning exercise drew on inputs from multiple internal and external data and research sources. The GBG also collected inputs from dozens of individuals across EY teams, including those focused on public policy, strategy, macro trends and sector-level developments. Contributions to this scan came from individuals in Australia, China, France, Germany, Japan, Mexico, Poland, South Africa, the UK, the US and many other geographies. 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.

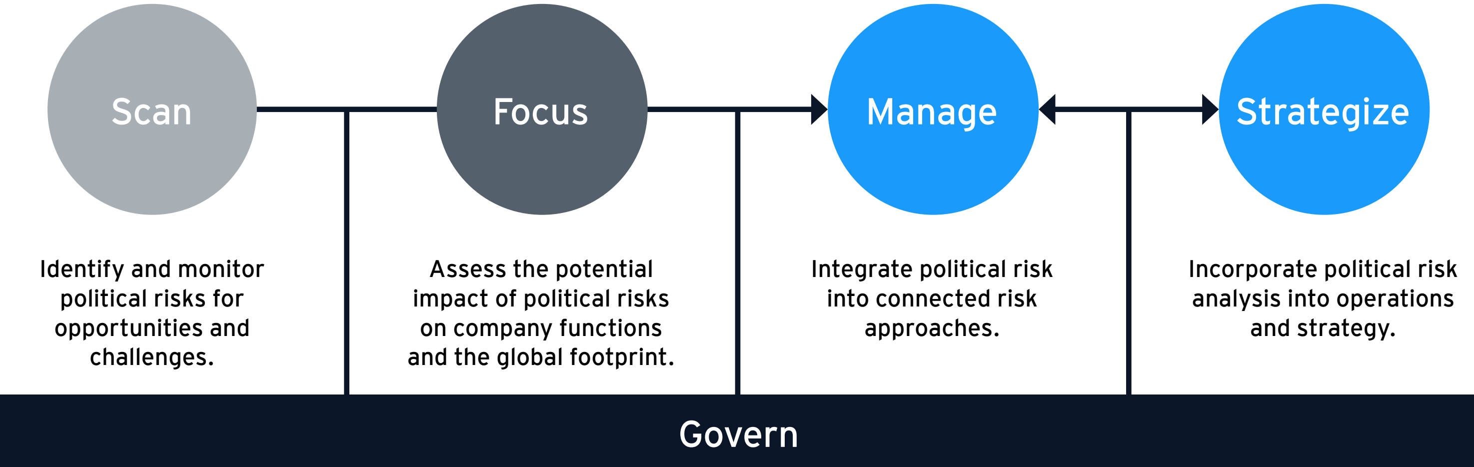
Next, the GBG assessed all the identified political risks along two dimensions: their probability of occurring and the degree to which they would have impact on companies across sectors and geographies globally. This impact assessment is aligned with the second step in implementing a geostrategy, which is critical for understanding how geopolitics could affect transformations at global organizations. 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 organizations.

The analysis for each of the 10 developments in the 2025 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 mitigate downside risks (manage) and take advantage of upside opportunities (strategize). In addition, this Outlook includes analysis of the market disruptions — both downside and upside — of the 10 developments across 18 sectors. And it includes recommended actions that executives can take to manage each geopolitical development in a strategic and proactive manner, weaving them into their transformation plans.

Executives who implement a geostrategy that addresses all the top 10 geopolitical developments in the 2025 Geostrategic Outlook — as well as any other developments of particular relevance for their organizations — are likely to be better positioned to build a geopolitically robust strategy and shape their future with confidence.

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

EY-P geostrategy framework



Source: EY Geostrategic Business Group.

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

Saulius Adomaitis, Omar Ali, Malin Andree, Peter Arnold, Lori Baldino, Adrian Baschnonga, Liz Bolshaw, Javi Borges, Ben-Ari Boukai, Charles Brewer, Andy Brogan, James Brundage, Julie Buresh, Zoe Catchpole, Manoj Chauhan, Mary Karol Cline, Serge Colle, Jon Copestake, Andrew Cosgrove, Craig Coulter, Gregory Daco, Megan Dahlgren, Kim Dalla Torre, Patricia Davies, Charles Davis, John De Yonge, Kate Delgado-Kizer, Ulrika Eklöf, James Evans, Lorenzo Fattibene, Cedric Foray, Catherine Friday, Nicola Gates, Angelika Goliger, Ari B Saks Gonzalez, Jerry Gootee, Sandeep Gupta, Christian Hellwig, Linda Hill, Andrew Hobbs, Andrew Horstead, Gautam Jaggi, Anu Goyal, Akanksha Jain, Amit Jain, Rachel Jones, Junko Kaji, Jan Kallmorgen, Beth Kent, Greg Kerr, Prarthana Khera, Dr. Brian Killough, Hyong Kim, Ansgar Koene, Kyle Lawless, Ivan Lehon, Jun Li, Tobias Liebing, Shane MacSweeney, Shawn Maher, Urvi Majhi, Daniel Mathews, Shaun Maxwell, Danielle McAdams, Anne McCormick, Julie McQueen, Karl Meekings, Harshil Milan Zatakia, Paul Mitchell, Sampada Mittal, Nigel Moden, Grantley Morgan, Meghna Mukerjee, Cherelle Murphy, Bridget M Neill, Geoff Palmer, Mike Pifko, AnnMarie Pino, Antonio Quintanilla, Martha Raupp, Viddhi Rohit Parekh, Marek Rozkrut, Tate Ryan-Mosley, Robert S. Holston, Karan Saksena, Isabelle Santenac, John Shumadine, Swathi Sivaraman, Mark Skarratts, Prianka Srinivasan, Shauna Steele, Kiran Manakolil Sunilkumar, Julia Tay, Tiffany Tay, Sakshi Trikha, Daksh Tyagi, Anil Valsan, Sharad Varma, Bridget Walsh, Michael Wheelock, Dr. Jack White, Steve Wilkinson, Laura Williams, Laura Winthrop, Peter Witte, Edmund Wong, Yi Y Xie, Crystal Yednak, Andrew Young and Jay Young.

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EY-Parthenon teams work with clients to navigate complexity by helping them to reimagine their ecosystems, 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.

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

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EYG no. 010560-24Gbl
CSG no. 2410-10495
ED None

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