

# Geostrategic analysis

The EY-Parthenon Geostrategic Business Group's monthly analysis explores key geopolitical developments and their business impacts.

February 2025 edition



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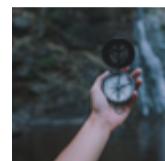
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## EY-Parthenon Geostrategic Business Group (GBG)

Translating geopolitical insights into business strategy

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# Top development

EU to boost defense amidst increasingly uncertain security outlook

## What happened

On 3 February, EU leaders met informally in Brussels to discuss strengthening European defense and supporting Ukraine, ahead of NATO's first defense ministries meeting under Donald Trump's new presidency.<sup>1</sup>

Last year, European Commission President Ursula von der Leyen announced plans to boost domestic industrial competitiveness<sup>2</sup> and increase EU common defense spending<sup>3</sup> by €500 billion over the next decade, while national defense spending increased to €326 billion.

EU efforts to enhance domestic defense capabilities are driven by Europe's worsening security environment, including an increase in hybrid threats, and Trump's demands for NATO allies to more than double defense spending to 5% of GDP as well as his plans to push to end the war in Ukraine.

## What's next

EU leaders are expected to agree on a final European Defense Industrial Strategy in 2025, which would make EU money available for joint production and procurement of military equipment, as well as R&D in innovative defense technologies such as AI and unmanned systems.<sup>4</sup>

Negotiations are expected to start this fall regarding increasing the share of the EU budget earmarked for defense (currently only €10 billion) over the 2028-2034 period, as well as reallocating existing funds and introducing new ones through joint debt initiatives.<sup>5</sup>

Regulations to bolster intra-EU defense trade and cooperation, align standards and enhance supply chain resilience via strategic stockpiling and more transparency could also take effect within the next two to three years.

EU proposals, aimed at boosting the bloc's competitiveness, to relax competition rules for mergers in strategic sectors like defense may take effect by late 2025, pending Member State approval.

For more information, contact [Famke Krumbüller](#)

Despite these efforts, European security and defense will likely remain reliant on the US in the short to medium term, as fiscal deficits may hinder new EU spending efforts.

Regardless of the outcome of any negotiations to end the war in Ukraine, Russia's physical and hybrid security threats in Europe – particularly in central and eastern Europe – will likely persist, which will continue to put pressure on EU leaders to enhance defense capabilities.

## Business impact

Major sectors affected include aerospace and defense, industrial products, government and public sector, infrastructure, technology and telecommunications.

Increased defense spending offers potential [growth opportunities](#) for European industry, including manufacturing (ammunition, weapons and equipment) and technology (drones, AI, automated systems).

Potential bureaucratic streamlining and regulatory incentives for intra-EU defense cooperation and trade could also benefit EU aerospace and defense firms by expanding addressable markets and enabling greater economies of scale. But defense companies will need to [monitor potential new regulations](#) aimed at supply chain resilience, stockpiling, and prioritizing critical production lines in emergencies, as well as the growing risk of new trade restrictions with the US.

Hybrid warfare disruptions such as cyberattacks and infrastructure sabotage are likely to persist, potentially intensifying if peace talks fail. Critical infrastructure players in the EU should prepare for new [cybersecurity](#) rules to enter into effect in 2025, which may include government-led stress tests for hybrid attack readiness. Companies across sectors should continually assess the European security outlook and the implications for their supply chains, operations and sales in the region.

Additional reading: [How can digital supply chains help manage aerospace risk?](#)

<sup>1</sup> Invitation letter by President António Costa to the members of the European Council – Consilium <https://www.consilium.europa.eu/en/press/press-releases/2025/01/13/invitation-letter-by-president-antonio-costa-to-the-members-of-the-european-council/>

<sup>2</sup> Speech by President von der Leyen at the European Parliament Plenary on the new College of Commissioners and its programme – European Commission [https://neighbourhood-enlargement.ec.europa.eu/news/speech-president-von-der-leyen-european-parliament-plenary-new-college-commissioners-and-them-2024-11-27\\_en](https://neighbourhood-enlargement.ec.europa.eu/news/speech-president-von-der-leyen-european-parliament-plenary-new-college-commissioners-and-them-2024-11-27_en)

<sup>3</sup> Opening remarks by the President: EUCO June 2024 [https://ec.europa.eu/commission/presscorner/detail/en/STATEMENT\\_24\\_3541](https://ec.europa.eu/commission/presscorner/detail/en/STATEMENT_24_3541)

<sup>4</sup> European Commission – Our common defence industrial strategy [https://defence-industry-space.ec.europa.eu/eu-defence-industry/edis-our-common-defence-industrial-strategy\\_en](https://defence-industry-space.ec.europa.eu/eu-defence-industry/edis-our-common-defence-industrial-strategy_en)

<sup>5</sup> European Commission – The Future of Defence [https://defence-industry-space.ec.europa.eu/eu-defence-industry/edip-future-defence\\_en](https://defence-industry-space.ec.europa.eu/eu-defence-industry/edip-future-defence_en)

# 2 Sector in focus: Automotives

Trade restrictions likely to fragment global automotive market

## What happened

In the last days of the Biden administration, the US Commerce Department finalized rules that prohibit the import of connected vehicles containing certain Chinese hardware or software. Meanwhile, China has intensified efforts to strengthen domestic automotive technology supply chains and imposed export controls on several EV-critical inputs and battery technologies.

On his first day in office, US President Donald Trump signed executive orders removing some previous policies designed to encourage EV adoption and relaxing environmental restrictions on fossil fuel infrastructure. While he did not announce any tariffs in his first week, he suggested his administration may impose 25% tariffs on goods from Canada and Mexico.

## What's next

US policy is likely to focus on increasing domestic automotive jobs and manufacturing. This will likely include additional restrictions on Chinese autonomous vehicles due to national security concerns. China may seek to leverage its market leading positions in some automotive manufacturing processes, such as industrial plastics, key input raw materials and certain manufacturing technologies.

For more information, contact [Anil Valsan](#) and [David Li](#).

Trade tensions may escalate to the point of the US and China imposing tit-for-tat tariffs and other trade restrictions on one another's exports. Markets in Southeast Asia, India and Africa will continue to position themselves as alternatives for automotive production or suppliers of key manufacturing components.

## Business impact

Tit-for-tat trade restrictions could significantly disrupt global auto manufacturing [supply chains](#) and lead to inflationary pressures in the sector. Executives should monitor and create contingency plans for products such as EV battery components, semiconductors and advanced processors, autonomous vehicle components and critical industrial raw materials.

Market barriers could lead to a fragmentation of the global automotive market and divergent product standards. Executives should be aware of [divergent regulations](#) and software standards in major markets and determine how that may necessitate region-specific automotive designs and manufacturing processes.

Additional reading: [How to retake the momentum in the EV transition](#)

# 3 Other issues we are watching

Gaza de-escalation, South Korean political instability, and Mozambique's political crisis

## Gaza de-escalation to ease business risks

A ceasefire between Israel and Hamas, accompanied by continued de-escalation in Lebanon and the Houthis announcing an end to attacks on most ships in the Red Sea, [lowers the immediate threat \(via EY.com US\)](#) to regional stability. Conflict in the West Bank is likely to continue, however, and other isolated incidents of violence may occur elsewhere. Regional leaders and key partners will likely focus on resolving Israeli-Palestinian issues, addressing Iran's nuclear program and fostering stability in Syria in the post-Assad era. The new Trump Administration will likely seek to reset a Middle East strategy focused on forging new economic ties and an expansion of the Abraham Accords.<sup>6</sup>

**Business impact:** Reduced hostilities will likely provide a rationale for some global businesses, from airlines to technology companies, to expand their presence in the region. Some sectors such as tourism may continue to be depressed, however. And while an anticipated end to most attacks in the Red Sea could ease global trade and supply chain costs, marine insurers are yet to reflect a return to pre-October 2023 conditions, and so shipping companies should continue [resiliency](#) initiatives given the potential for a return to attacks in the future.

For more information, contact [Ben-Ari Boukai](#).

## South Korean political instability is expected to persist

Finance Minister Choi Sang-mok became acting President in late December after the impeachment of Han Duck-soo, making him South Korea's third president in under four weeks. The Constitutional Court has 180 days to decide on the December impeachment of President Yoon Suk Yeol and will likely reach a decision in 60-90 days. Considering the timing precedent set by recent impeachments, this period of political instability is expected to continue through at least mid-2025. This instability is occurring at a sensitive time, as South Korea's US\$51.4 billion trade surplus with the US and its hosting about 30,000 US troops makes the country particularly vulnerable to economic and security pressures from Washington.

<sup>6</sup> The Abraham Accords - United States Department of State <https://www.state.gov/the-abraham-accords>

<sup>7</sup> Mozambique - Countries & Regions - IEA <https://www.iea.org/countries/mozambique/natural-gas>

<sup>8</sup> Mozambique's Political Unrest Raises Additional Credit Risks <https://www.fitchratings.com/research/sovereigns/mozambiques-political-unrest-raises-additional-credit-risks-21-11-2024>

**Business impact:** The 2017 impeachment of President Park Geun-hye indicates that such crises can significantly deter [foreign direct investment](#). In addition, the Korean won recently hit a 15-year low against the dollar and such foreign exchange rate weakness may continue throughout the period of political instability. While this may boost Korean exports, it could also contribute to inflation. The country's [economic outlook](#) (via EY.com US) may therefore take a hit, with revised growth projections of 1.8%, down from earlier projections of 2.2%.

For more information, contact [Kyle P. Lawless](#).

## Mozambique's political crisis poses business risks

Mozambique's contentious elections in October 2024 and President Daniel Chapo's fraught inauguration in mid-January highlight significant political instability in Africa's third-largest natural gas exporter.<sup>7</sup> With more than 300 deaths and more than 4,200 arrests linked to post-election unrest, tensions remain high. Chapo's policy agenda focuses on comprehensive state reforms to improve governance and public services, including digitizing public services, establishing a Ministry of Transport and Logistics and creating a Court of Auditors. But if demands for political and electoral reforms are not addressed, the country could face sustained instability, further weakening economic prospects and investor confidence.

**Business impact:** The political instability has affected operations of businesses in Mozambique, and the Southern Africa region more broadly, and raises credit risks<sup>8</sup> for the country. Mozambique's instability threatens critical sectors, such as energy, [transport](#), mining and tourism with potential project delays and security risks deterring new investment. The gas sector faces heightened operational costs amid unrest. Businesses reliant on the Port of Maputo for exports may experience disruptions and should prioritize [risk mitigation strategies](#), monitor governance reforms, and leverage scenario planning.

For more information, contact [Angelika Goliger](#) and [Hulisani Muloiwa](#).

# 4 Geostrategic indicator of the month

## Populism Survey

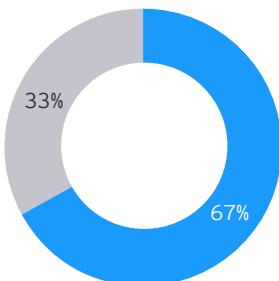
### The indicator:

The [EY-Parthenon 2025 Geostrategic Outlook \(pdf\)](#) highlights that populist policy influences are likely to lead to more protectionist measures and immigration restrictions. This trend will likely be pronounced in Europe given stronger political representation of far-right parties. In Germany, for instance, the recent convention of the Alternative for Germany (AfD) party reaffirmed and intensified the party's focus on migration as a key issue in its platform for the elections in February. More broadly, the rise of populist and extremist parties could lead to the formation of less stable coalitions and minority governments, complicating the process of achieving consensus and implementing new policies, and could weaken the functioning of governing institutions in certain jurisdictions.

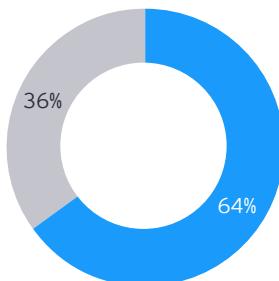
### Populism is rising as a majority of people around the world feel powerless and excluded

Global country average of respondents agreeing with each statement

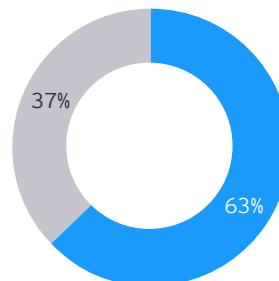
The main divide in our society is between ordinary citizens and the political and economic elite



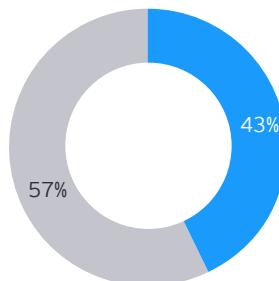
Traditional parties and politicians don't care about people like me



[Country] needs a strong leader to take the country back from the rich and powerful



[Country] would be stronger if we stopped immigration



■ Agree ■ Disagree

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

### Business impact

The growing political influence of populists may heighten social activism and contribute to a more polarized operating environment for businesses in many countries. Reputational risks for businesses or investors can increase if they become associated with one side of the debate or the actions of a specific political actor. Rising anti-immigrant sentiment may make it difficult for companies to attract foreign talent in some markets, while stricter immigration policies could impact businesses' ability to secure work permits for overseas employees, potentially worsening talent shortages. Businesses should evaluate their dependence on international talent, particularly in markets with strong anti-immigration views, and reassess their talent strategies.

Additional reading: [EY-Parthenon 2025 Geostrategic Outlook](#)

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