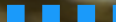


# Geostrategic analysis

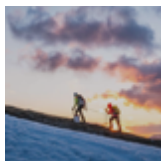
The EY-Parthenon Geostrategic Business Group's monthly analysis explores key geopolitical developments and their business impacts.

March 2025 edition



The better the question. The better the answer.  
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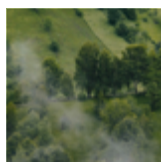
## **Top development:**

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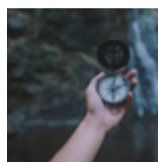
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## **EY-Parthenon Geostrategic Business Group (GBG)**

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# Top development

India's "multialignment strategy" seeks to diversify economic relations and boost investment

## What happened

In October 2024, China and India agreed to a system for patrolling their shared border. Coupled with a bilateral meeting between Indian Prime Minister Narendra Modi and Chinese President Xi Jinping, this marked a significant reduction in tensions between the two countries. Singapore's president conducted a state visit to India in January. This followed Prime Minister Modi's visit to Singapore in September 2024, during which the countries agreed to facilitate investment in semiconductors and the interoperability of their digital economies. Prime Minister Modi met with US President Donald Trump at the White House<sup>1</sup> in February, during which the two leaders reaffirmed the strength of the India-US Comprehensive Global Strategic Partnership to drive defense, trade and strategic technology cooperation.

## What's next

New Delhi will continue to pursue a "multialignment strategy" in its foreign relations and economic partnerships, cementing India's position as a critical geopolitical player. India will try to maintain geopolitical relations and expand economic ties with multiple global powers as well as a variety of [emerging markets](#) around the world. This ambition is reflected in the Modi government's recent 2025-26 budget, which points to exports as India's "fourth growth engine,"<sup>2</sup> with a goal of US\$2 trillion in exports by 2030.

Trade expansion will build on the growth in India's outbound greenfield investments, which hit record highs in 2024, fueled by government and private sector efforts to expand their presence globally. Notably, the Middle East has been the top destination for Indian investments for each of the last three years according to fDi Intelligence.<sup>3</sup> Economic ties between India and the Middle East will likely expand further as a result of the India-Middle East-Europe Economic Corridor (IMEC).

India's ties with Europe are also likely to grow following the recent visit of the full European Commission to India, and the EU-India Trade and Technology Council meeting to advance negotiations on an EU-India trade agreement.

Singapore and India will likely build upon their existing economic partnerships. This could include enabling financial institutions for Singapore to set up a data embassy in Gujarat, India, and a possible expansion of the countries' bilateral air services agreement.

India will seek to maintain positive economic and security relations with the US, which will likely entail lowering import duties to avoid potential US "reciprocal tariffs" on Indian goods and by potentially increasing defense and liquefied natural gas (LNG) purchases from the US. The latter is likely to be easy to achieve, given the International Energy Agency forecasts India's LNG imports are set to double by the end of the

decade. At their recent meeting, President Trump and Prime Minister Modi agreed to discuss tariffs again in September or October 2025. India will also host the next meeting of the Quad – a security-focused diplomatic partnership between Australia, India, Japan and the US – later in the year.

Evolving India-China relations are likely to be more mixed as the countries compete for influence in other emerging markets, particularly in South Asia. India's concerns about China's plans to build its largest-ever dam on the Yarlung Tsangpo river, which flows into India, could renew diplomatic tensions. Bilateral trade and investment are likely to remain robust, in part due to India importing components from China to build its domestic technology sector.

## Business impact

Major sectors affected include advanced manufacturing, automobiles, aerospace and defense, technology, and energy.

India remains the fastest-growing large economy in the world, and its "multialignment strategy" means that companies headquartered in a variety of markets around the world are likely to have growth opportunities in the country. Executives should seek alignment with New Delhi's investment priorities to support further market access and new partnerships.

The government's ongoing Production Linked Incentive program will continue to provide opportunities for companies that set up or expand manufacturing operations in India. Policymakers will likely be most supportive of opportunities in technology manufacturing and green energy capabilities, as well as AI and space economy ventures. Replicating industry ecosystems such as those in China or Southeast Asia may proceed slowly, although this could accelerate if India allows more investment by Chinese firms.

Continued investment in India's infrastructure – including a US\$3 billion fund for port development in the recent budget – could provide opportunities for construction firms and related services. Over time, infrastructure improvements will ease logistical challenges for companies across sectors. The power mix could be a challenge for some investors with robust sustainability criteria, as more than 50% of India's energy generation is powered by coal.<sup>4</sup> This mix could change in the future, as aggressive investments are being made in the renewable energy sector.

Uncertainties regarding US trade policy and rising global yields could dampen some investor interest in some emerging markets, potentially including India. In addition, any trade policy volatility could weaken the Indian rupee vis-à-vis the dollar and other major currencies, which could potentially lead to higher inflation.

For more information, contact [Courtney Rickert McCaffrey](#) and [Adam Barbina](#).

Additional reading: [Top 10 geopolitical developments for 2025](#)

<sup>1</sup> United States-India Joint Leaders' Statement – The White House <https://www.whitehouse.gov/briefings-statements/2025/02/united-states-india-joint-leaders-statement/>

<sup>2</sup> Press Release: Press Information Bureau <https://pib.gov.in/PressReleasePage.aspx?PRID=2098353>

<sup>3</sup> fDi Intelligence – Your source for foreign direct investment information – fDi Intelligence.com <https://www.fdiintelligence.com/content/data-trends/india-inc-flexes-muscles-on-global-stage-84445#:~:text=India%20has%20become%20an%20increasingly,latest%20data%20from%20fDi%20Markets.>

<sup>4</sup> Power Sector at a Glance ALL INDIA | Government of India | Ministry of Power <https://powermin.gov.in/en/content/power-sector-glance-all-india>



# 2 Sector in focus: Technology

## Building AI infrastructure amid growing geostrategic complexity and divergence

### What happened

Global investment in AI infrastructure, particularly in data centers, is growing significantly. In January, a partnership of US technology companies unveiled the \$500 billion Stargate initiative, which was soon followed by other substantial public and private commitments to AI infrastructure at the Paris AI Action Summit.<sup>5</sup>

These investments coincide with the rise of new AI tools that may not depend heavily on advanced chips and costly data centers. For instance, companies in China claim that their AI models were developed with relatively modest initial funding, despite facing trade restrictions on the high-performance chips that have been pivotal to AI innovations elsewhere.

### What's next

While the expansion of AI infrastructure is a worldwide trend, the strategies adopted will likely differ across regions. The Paris Summit did not achieve a global consensus on balancing AI regulation with innovation, with the US and UK declining to sign the summit declaration.

Varying regulatory frameworks regarding sustainability may also influence innovation strategies, particularly considering the significant energy requirements of the current generation of AI data centers.

The potential expansion of US trade and investment restrictions on China,<sup>6</sup> along with tariffs on countries with key semiconductor manufacturers, could lead to further fragmentation of both AI policy and technical development strategies.

### Business impact

As public and private investments in AI continue to grow, further innovations are likely. Tech companies should continue to monitor the emergence of new models that appear capable of delivering AI value at a reduced cost and assess the implications for their business models. AI adoption and usage will spread even faster than previously expected. Technology companies should explore partnerships and investments in related sectors, such as energy, and consider acquisitions of companies that could bolster their AI infrastructure plans.

AI transformation strategies face varying regulatory requirements, different regulatory priorities, as some jurisdictions prioritize AI innovation above other concerns, while others emphasize regulations around AI ethics and sustainability. To effectively navigate the rapidly evolving global landscape of AI legal and regulatory frameworks, executives should prioritize governance by design and proactively integrate responsible AI.

For more information, contact [Andrew Young](#).

Additional reading: [Top 10 opportunities for technology companies in 2025](#)

<sup>5</sup> EU launches InvestAI initiative to mobilise €200 billion of investment in artificial intelligence | Shaping Europe's digital future <https://digital-strategy.ec.europa.eu/en/news/eu-launches-investai-initiative-mobilise-eu200-billion-investment-artificial-intelligence>

<sup>6</sup> America First Investment Policy – The White House <https://www.whitehouse.gov/presidential-actions/2025/02/america-first-investment-policy/>



# 3 Other issues we are watching

Germany's political shift, Canadian elections outlook and China's policymaker priorities

## Germany's political shift signals business environment changes

In Germany's federal election, the center-right Christian Democratic Union (CDU/CSU) emerged as the strongest party, but fell short of a majority. CDU leader and likely Chancellor Friedrich Merz has ruled out a coalition with the second-placed, far-right Alternative for Germany (AfD) and will begin coalition talks with the center-left Social Democratic Party (SPD), the only other party with which he can form a parliamentary majority. Merz has signaled his ambition to conclude coalition talks by mid-April given the urgency of both the international and domestic environment.

The new government is forming amid a persistent recession, worsening transatlantic relations, an unresolved migration crisis and ongoing security challenges. A CDU/CSU-SPD coalition would likely prioritize economic competitiveness and growth by reducing bureaucratic hurdles and regulation – including potentially abolishing the Supply Chain Act and the Corporate Sustainability Reporting Directive (CSRD) sustainability guideline. The new government may also implement tax reforms; and there is already an agreement to enable the German administration to take on more sovereign debt to invest in digitalization, infrastructure and defense. A greater emphasis on de-risking from China in terms of trade and investment, with a key focus on national security, is also likely. Companies in sectors that have a strong presence in the German economy – manufacturing, finance and energy – should monitor coalition talks and assess implications for trade, taxation, investment and regulatory changes.

For more information, contact [Maxim Hofer](#), [Christian Hellwig](#).

## Canadian elections to impact North American trade relations

The ruling Liberal Party selected former governor of the Bank of Canada and Bank of England Mark Carney as party leader and Prime Minister following Justin Trudeau's announced resignation. Carney is expected to call Canada's federal election as early as April or May but the election may occur at any date up to 20 October 2025. Polling initially favored the opposition Conservative Party but is now a competitive race. Either a liberal or conservative government is a possibility. Voter decisions are likely to be driven by concerns over the cost of living, regulatory burdens and perceptions on how the candidates will address potential US tariffs and broader economic challenges.

A Conservative Party-led government – potentially through a minority coalition – would usher in a new era following nine years of Liberal

governments. Domestically, such a government would likely prioritize a pro-business agenda including lowering taxes and reducing regulation, including support for Canada's [oil and gas sector](#). A new Carney-led Liberal government could also result in a policy shift from the Trudeau government in areas of interest to the business community, such as moving away from a cost-focused carbon reduction strategy to a more incentives-based strategy. On foreign policy, the new government will need to manage the uncertainty associated with US trade policy, both with respect to tariffs and the imminent review of the USMCA. The latter is due by 2026 but may begin sooner. Executives should engage in scenario planning to strategically position for alternative North American trade policy outcomes.

For more information, contact [Adam Barbina](#).

## China's policymakers seek to boost innovation and consumption

China's "Two Sessions" annual political meetings of the National People's Congress (NPC) and the Chinese People's Political Consultative Conference (CPPCC) were convened on 5 March. During the NPC opening session, Premier Li Qiang delivered the government work report, which set a GDP growth target of "around 5%" for 2025. Key policy priorities in the coming year include stimulating domestic consumption and focusing on "new quality productive forces" to modernize industrial capacity. It is likely that the central and local governments will increase fiscal stimulus, such as through special-purpose bonds, likely favoring strategic industries and infrastructure investment. As indicated in previous policy meetings, the government will further expand household consumer goods trade-in programs and additional funding for the social safety net to further encourage consumption.

The 2025 NPC session highlighted boosting domestic consumption as a key policy priority in the coming year, which will likely support growth and revenue opportunities in consumer-facing sectors such as [retail and consumer goods companies](#). The government continued to signal a pro-business environment, including acceleration of market access and favourable policies for inbound foreign investment. The Chinese leadership has continued to emphasize innovation as a key area of industrial policy focus in terms of supporting domestic firms, which signals there will likely be policies that benefit companies in the technology, [advanced manufacturing](#), aerospace, and energy transition sectors. Executives should explore related investment opportunities in these areas.

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

# 4 Geostrategic indicator of the month

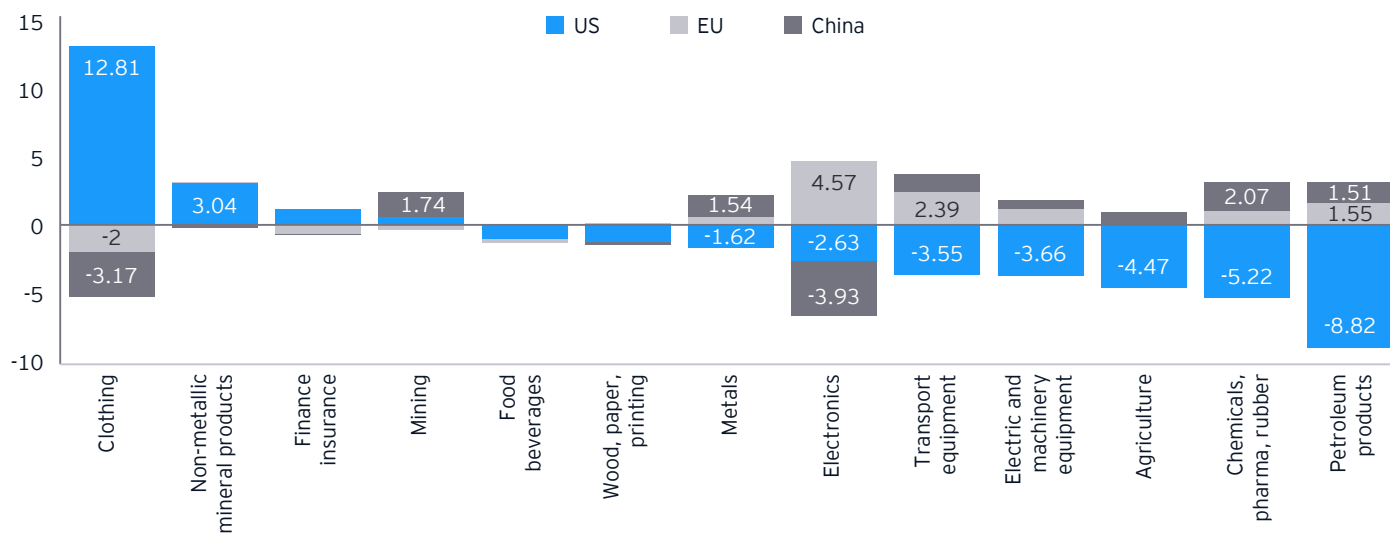
## Long-term impact of tariffs on sectors

### The indicator:

The US Trump administration has announced new tariffs, including a 10% tariff on Chinese imports and 25% tariffs on all imported steel and aluminum beginning 12 March. President Trump has discussed other potential tariffs as well. The recent [EY-Parthenon Global Economic Outlook \(pdf\)](#) models the likely impact of different tariff scenarios, the most impactful of which would be country-specific “blanket tariffs.” In this scenario, the US would impose 60% tariffs on imports of all goods from China, 25% tariffs on all imports from Mexico and Canada, and 10% tariffs on imports of all goods from the rest of the world. The long-term impact of such tariffs would be the reallocation of production across sectors and geographies, based on their relative exposure to tariffs.

### Long-term impact of tariffs on the value added in selected sectors

Percentage difference relative to baseline forecast



Source: EY EAT

Note: Only sectors with an absolute impact larger than 1% in at least one of the jurisdictions are displayed.

### Business impact

While a blanket tariff scenario may not be the most likely outcome, it is useful for executives to assess the potential impacts of such a scenario to prepare for more moderate tariff scenarios as well. In a blanket tariff scenario, Chinese production in sectors heavily reliant on exports to the US, such as electronics and clothing, would decline, with a shift toward sectors that export more to other markets around the world. In the EU, sectors such as electronics and automobiles could benefit as they face lower tariffs in the US compared to competitors from China, Mexico and Canada. Over time, the adverse effects of tariffs would likely diminish as global value chains undergo restructuring. One outcome would be a diminished US role in global trade as trade among other countries grows.

Additional reading: [EY-Parthenon Global Economic Outlook](#)

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