

Geostrategic analysis

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

March 2026 edition



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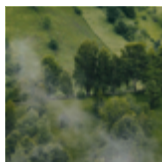
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Global shipping delays are increasing to levels not seen since the post-pandemic reopening period

EY-Parthenon Geostrategic Business Group (GBG)

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Top development

Middle powers chart distinct paths to AI sovereignty.

What happened: Governments are increasingly treating AI assets – foundation models, training data and computing infrastructure – as a national security priority and an important piece of critical infrastructure. As discussed in the EY-Parthenon [2026 Geostrategic Outlook](#), the geopolitics surrounding AI is driving market fragmentation and reshaping investment strategies across an increasingly fractured digital ecosystem.

The world's leading economic and geopolitical powers have been driving this agenda, including via the EU's AI Continent Action Plan¹ (including the proposed Cloud and AI Development Act²), the US AI Action Plan³ to channel government investment into domestic AI infrastructure and China's 15th Five-Year Plan (2026-30) reinforcing technology self-reliance as a strategic priority.

Middle powers are also moving from policy to deployment, leveraging distinct advantages rather than attempting to build comprehensive AI stacks.

What's next: This emerging pattern of middle powers embracing selective AI sovereignty – choosing where to build independent capabilities and where to maintain strategic partnerships, shaped by structural advantages and geopolitical positioning – is likely to persist.

While recent developments elevate uncertainty in the region, Gulf states, backed by abundant low-cost energy and sovereign capital, will likely continue to seek to operationalize computing infrastructure and build on their established government-to-government frameworks for AI deployment. US authorization⁴ of advanced semiconductor exports to Saudi Arabia and the UAE highlights the benefits of geopolitical alignment with one of the major AI markets and will likely support these countries' efforts to develop domestic AI capabilities.

Japan and South Korea have leveraged their established semiconductor and advanced manufacturing capabilities to deepen domestic AI investment. In Japan, Prime Minister Sanae Takaichi's new government is likely to accelerate growth in the domestic AI industry given her focus on using industrial policy to advance economic security and technological sovereignty.

And India will seek to capitalize on recent momentum from hosting the AI Impact Summit⁵ in February – the first such gathering convened outside the West – to position itself as both a development hub and a governance voice for the Global South.

The Association of Southeast Asian Nations (ASEAN) plans to sign its Digital Economy pact, which aims to double its digital economy, in 2026. It is likely to test whether collective frameworks can hold when member states face competing investment incentives and divergent approaches

to data sovereignty – a dynamic that will define how regional blocs engage with the selective sovereignty strategies being pursued by major powers.

The US will likely continue to link geopolitical alignment to AI technology access, while China extends AI infrastructure through Digital Silk Road partnerships across the Global South. The EU's regulatory posture carries extraterritorial reach that is already shaping how companies worldwide develop and deploy AI – particularly in regulated industries – with a compliance effect comparable to the General Data Protection Regulation (GDPR).

Business impact: Major sectors affected include technology, telecommunications, energy and resources, infrastructure, and government and public sector.

As middle powers adopt selective sovereignty strategies alongside major powers' investments in sovereign AI, there will be growth opportunities across sectors that produce and enable these digital ecosystems. Industrial policies will likely continue 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.

At the same time, global companies must operate across an even more diverse and fragmented AI governance landscape. As the US, EU, China, Gulf states and others take different approaches, each market will have distinct compliance, procurement and market access requirements. Companies in sensitive sectors – such as defense, biotech and advanced manufacturing – face mounting pressure to localize data and align with national or allied jurisdictions. [Chief Information Officers](#) (CIOs), Chief Information Security Officers (CISOs), legal teams and supply chain leaders should assess exposure to foreign data laws and develop jurisdiction-aware data governance strategies.

Organizations should incorporate sovereignty, legal exposure and resilience when selecting cloud and AI infrastructure partners. Risks tied to vendor lock-in and extraterritorial laws – including the US CLOUD Act and the EU AI Act's extraterritorial enforcement – are driving a shift toward hybrid and multicloud architectures. As geopolitical risk becomes a board-level concern – with general counsels, chief compliance officers and heads of public policy increasingly [responsible for geostrategy](#) – executives should [integrate scenario planning](#) to assess how diverging AI governance frameworks affect operating models, supply chains and market access decisions.

For more information, contact [Courtney Rickert McCaffrey](#), [Gaurav Batra](#) and [Maxim Hofer](#)

Additional reading: [Top 10 geopolitical developments in 2026](#)

¹ AI Continent Action Plan | Shaping Europe's digital future (digital-strategy.ec.europa.eu) <https://digital-strategy.ec.europa.eu/en/factpages/ai-continent-action-plan>

² AI Continent: new cloud and AI development act | Have your say (ec.europa.eu) https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/14628-AI-Continent-new-cloud-and-AI-development-act_en

³ America's AI Action Plan | The White House (whitehouse.gov) <https://www.whitehouse.gov/wp-content/uploads/2025/07/Americas-AI-Action-Plan.pdf>

⁴ Statement on UAE and Saudi Chip Exports | U.S. Department of Commerce (commerce.gov) <https://www.commerce.gov/news/press-releases/2025/11/statement-uae-and-saudi-chip-exports>

⁵ India AI Impact Summit | IndiaAI (impact.indiaai.gov.in) <https://impact.indiaai.gov.in/>

Sector in focus: Aerospace and defense

Europe will focus on enabling defense delivery and industrial scale-up.

What happened

European countries have shifted from declarations of intent to concrete industrial and financial defense planning. Conversations at the 2026 Munich Security Conference focused on readiness, production capacity and joint procurement, reflecting broad recognition that demand is no longer the constraint.

The EU's "ReArm Europe/Readiness 2030" initiative presented in 2025 aims to mobilize up to €800 billion (US\$945 billion) to accelerate capability delivery, including via EU-level borrowing and lending instruments to member states that increase their defense investments through common procurement.

What's next

As European defense budgets are going to be structurally higher, the policy debate will focus on how quickly budgets can be converted into deployable capability and give industry the predictable demand signals needed to scale production through 2030.

A core driver of this next phase will be the EU's Security Action for Europe (SAFE) instrument, a key pillar of ReArm Europe and the EU's €150 billion financing instrument, that will steer joint procurement and harden European sourcing requirements whereby at least 65% of the total cost of components must originate from the EU or associated countries. Applications from the UK, South Korea and Türkiye to participate will be evaluated; a deal has been made with Canada. The EU and India have also concluded a "Security and defense partnership."

For more information, contact [Famke Krumbmüller](#) and [Anil Valsan](#).

The EU initiatives are expected to drive more standardized procurement architectures, particularly in air defense, drones and munitions, enabling Europe to operate more like a coordinated buyer rather than a fragmented set of national markets. At the same time, the championing of national industries will also continue.

National governments are reinforcing this shift through acceleration measures. Germany's Planning and Procurement Acceleration Act aims to compress procurement timelines and speed delivery. Taken together, these developments signal deeper state involvement in capital allocation and industrial planning.

Business impact

For defense companies, demand visibility is no longer the issue; execution is. Record backlogs across primes are constrained by missing industrial capacity, long lead time components, and skilled labor shortages – particularly in Europe – creating margin pressure as firms invest ahead of delivery. This elevates the importance of supply chain transformation, industrial scaling, and program execution discipline.

There is a rising tension between policymakers and investors. Governments are increasingly explicit that capital should prioritize production over distributions, while companies balance fixed price legacy contracts against inflation and ramp-up costs. This shift from market-led expansion to execution-led coordination affects the strategic agenda toward capital strategy, risk management, and geopolitically informed portfolio choices – areas where firms will need more sophisticated geostrategy and capital allocation frameworks.

Additional reading: [How can Europe act now to create advantage from adversity?](#)

Other issues we are watching

China's 15th Five-Year Plan, India's trade and AI push, and Latin America's new conservative governments pursuing reforms and investment incentives

China's 15th Five-Year Plan signals broad policy continuity

During the "Two Sessions" meetings of the National People's Congress and Chinese People's Political Consultative Conference, which will conclude on 11 March, China formally adopts its 15th Five-Year Plan (15FYP), which covers from 2026 to 2030. This macroeconomic and industrial policy roadmap is a continuation of China's industrial-focused, innovation-led growth trajectory. It signals a stronger push toward "new quality productive forces," prioritizing industrial modernization, technological advancement and innovation-led growth. The strategy is meant to address domestic structural headwinds such as slowing economic growth, financial instability and demographic challenges. It includes a continued push for high-value-added industries and strengthened focus on self-sufficiency in strategic sectors to insulate its economy against external volatility, including geopolitical tensions. Compared with previous years, the domestic consumption agenda is more concrete and financially backed, signaling more focus in addressing weak demand - which could address the IMF's recent recommendation of fiscal stimulus and other market-oriented reforms.

Business impact: The Plan signals a diverging business environment in China. It offers significant market opportunities for companies that operate in advanced technology and high-value services such as software development, professional services, healthcare and biotech innovation. However, the "self-sufficiency" mandates indicate a preference for domestic firms with deeper market knowledge and state backing. For multinational companies, the Plan indicates increased efforts to both produce and innovate locally, such as co-developing new technology initiatives to modernize industries and boost productivity. More broadly, success in China's market will likely require aligning corporate strategy with Beijing's core mandates: economic security and technology commercialization, including via the AI+ initiative which seeks to more deeply integrate AI across all industries. Companies could also consider how to address structural demographic and environmental challenges, such as adopting AI-driven automation, investing in elder care related services, and integrating sustainable supply chain practices to help ensure long-term resource security.

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

India's trade and AI strategies signal global economic engagement

On 27 January 2026, India and the EU concluded a free trade agreement⁶ following 20 years of negotiation, removing tariffs on nearly all traded goods. Then on 8 February, India and the US announced an interim agreement⁷ in their bilateral trade negotiations - although its implementation is less certain following tariff rate changes in the US. These two agreements have come after trade agreements with the UK, EFTA, New Zealand and Oman in recent years, signaling an openness to goods trade as a pathway to creating business platforms, encouraging trade and mobility and aspiring to make India a part of global supply chains. As highlighted in the March 2025 edition of Geostrategic Analysis, India's multi-alignment strategy will lead to a continued deepening of such relations with the "West" while maintaining relationships with other powers. In parallel, Indian Prime Minister Narendra Modi hosted the India AI Impact Summit in

February, bringing together global AI leaders to position India at center of the technology's advancement. Further, India has signed the Pax Silica Agreement and agreements with Brazil related to rare earths, signaling the policy objective of making its supply chains more resilient.

Business impact: India's services trade surplus is increasingly complemented by policy shifts to drive merchandise exports. Openness to trade is being complemented with de-regulation of the Indian economy with a focus on ease of doing business and making factor markets such as labor, energy and logistics more competitive. Executives should [monitor evolving legal and regulatory frameworks](#) linked to these agreements, particularly trade compliance and standards, as manufacturing competition intensifies. At the AI Summit, long-term pledges of investments of up to US\$20 billion primarily focused on data centers, and an announcement of laying an undersea cable linking India to the US, Singapore and South Africa highlight investment opportunities. India's AI commitments and ecosystem investments create [opportunities](#) across cloud infrastructure, data services and software, positioning India as both an operational base and a growth market for the technology sector.

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

New governments in Latin America could accelerate regulatory reforms and investment incentives

Elections across Latin America between April 2025 and February 2026 have led to wins by conservative or right-leaning parties in Chile, Ecuador, Costa Rica, Honduras and Bolivia. Analysts believe these results reflect widespread regional concerns over immigration, crime and slow economic growth. Similar trends, which helped to elect conservative governments in Argentina and El Salvador, could also help conservative candidates in upcoming elections in Peru and Colombia. Bolivian President Rodrigo Paz's⁸ initial moves upon assuming power in November 2025 are an example of the policy shifts across the region. His government eliminated fuel subsidies, streamlined regulatory approvals and provided tax incentives for repatriated capital. Other new governments may take similar actions.

Business impact: New conservative and right-leaning governments in these five Latin American countries are likely to try to accelerate economic growth, control inflation, and attract investment through eliminating what they view as distortive subsidies, stabilizing government spending, reforming taxes, and streamlining regulations. They likely will seek to expand exports of critical minerals and agricultural products, which could provide growth opportunities for companies in those sectors. In addition, many governments are likely to try attracting investment that improves national infrastructure, such as ports, roads and railways, and that promotes economic diversification, especially in digital and green technologies. The new governments could couple their regulatory reforms with more significant incentives to encourage investments in these sectors. Most new governments will likely pursue a multi-aligned economic policy, seeking greater cooperation with the US while continuing to welcome investment from China (which remains the leading trade partner of almost all South American countries).

For more information, contact [Adam L. Barbina](#) and [Jay Young](#), GBG

⁶ The EU-India trade agreement | European Commission (commission.europa.eu) https://commission.europa.eu/topics/trade/eu-india-trade-agreement_en

⁷ United States-India Joint Statement | U.S. Embassy & Consulates in India (in.usembassy.gov) <https://in.usembassy.gov/united-states-india-joint-statement/>

⁸ Rodrigo Paz's Defiant First 90 Days | Americas Quarterly (americasquarterly.org) <https://www.americasquarterly.org/article/rodrigo-pazs-defiant-first-90-days/>

4 Geostrategic indicator of the month

Global shipping delays are increasing to levels not seen since the post-pandemic reopening period

The indicator

The World Bank's Global Supply Chain Stress Index (GSCSI)⁹ assesses maritime logistics disruptions by quantifying delayed container-shipping capacity across global ports. As of February, delays were estimated at 2.02 million TEUs, reflecting stress levels not seen since the significant global supply chain disruption immediately following the COVID-19 pandemic. With the conflict in the Middle East, delays are likely higher now. Rising index values signal congestion in key shipping corridors, longer port-call delays, and heightened variability in maritime shipment reliability. Trade policy instability – which was once again brought to the fore with the US Supreme Court invalidating some of the Trump administration's tariffs – alongside ongoing geopolitical tensions and maritime security incidents, contribute to elevated risk exposure across global trade networks.

Global shipping delays are increasing to levels not seen since the post-pandemic reopening period

Global Supply Chain Stress Index (million TEUs)



Source: World Bank Global Supply Chain Stress Index

Note: Twenty-Foot Equivalent Unit (TEU) is the standard unit of measure for containerized cargo capacity

Business impact: As global supply chain stress rises, firms dependent on complex cross-border production networks face rising exposure to transport delays, volatile freight rates, and extended lead times. These disruptions can erode margins, destabilize production planning, and undermine inventory management – especially in geographically fragmented supply chains. These logistics stresses could also raise premiums and possibly claims for maritime insurance. Executives should rethink [supply chain](#) resilience by reassessing vendor concentration, redesigning buffer-stock strategies, and evaluating nearshoring or multi-sourcing models to offset the impact of renewed shipping volatility.

Additional reading: [How to master the great supply chain reset](#)

⁹ Global Supply Chain Stress Index | World Bank (worldbank.org) <https://www.worldbank.org/en/data/interactive/2025/04/08/global-supply-chain-stress-index>

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