

Geostrategic analysis

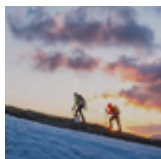
The EY-Parthenon Geostrategic Business Group's monthly analysis explores key geopolitical developments and their business impacts.

June 2025 edition



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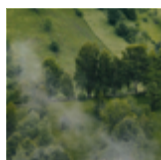
Top development:

Shifting global trade policies are reshaping markets with a mix of liberalization and protectionism



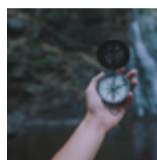
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Strong correlation between increased US political risk and gold prices

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1 Top development

Shifting global trade policies are reshaping markets with a mix of liberalization and protectionism

What happened

While attention has been focused on US tariff policy, other countries have continued to liberalize trade among themselves.

In December 2024, the EU and Mercosur¹ – whose members are Argentina, Brazil, Paraguay and Uruguay – finalized negotiations on an economic partnership agreement after 25 years of on-and-off negotiations. Ratification is now pending.

On 6 May, the UK and India² signed a free trade agreement, which was years in the making and completed after a flurry of negotiations over the past two months.

On 8 May, the US and UK³ unveiled the general terms of an Economic Prosperity Deal to lower bilateral tariffs and increase market access.

On 12 May, the US and China⁴ announced a 90-day reduction in the bilateral tariffs that were imposed in early April, to allow time for further negotiations.

On 21 May, China and the Association of Southeast Asian Nations (ASEAN) concluded the final negotiations on upgrading the China-ASEAN Free Trade Area (CAFTA) agreement to include the green economy, digital technologies, supply chain connectivity and other industries.

What's next

Following the first post-Brexit set of agreements at the UK-EU summit in mid-May, London and Brussels will continue to pursue a new strategic partnership to strengthen coordination on security, trade, and broader economic issues. They aim to ease trade barriers, support economic growth, and provide greater regulatory alignment between the UK and EU.

The EU will continue to pursue a variety of other economic partnerships to diversify its trade and investment relationships. The EU and Mexico⁵ will seek ratification of the modernized EU-Mexico FTA that was finalized in January. The EU and India will continue to negotiate a bilateral FTA via a phased approach that they aim to finalize this year. The aspiration is also to finalize negotiations on the Indonesia-EU Comprehensive Economic Partnership Agreement this year. And Australia and the EU will seek to build on the progress they have made regarding agricultural market access, critical raw material supplies, and services sector liberalization in their bilateral FTA negotiations.

Trade liberalization efforts will also continue in the Asia-Pacific. The country-level ratification process for the upgraded China-ASEAN FTA will begin. And following the UK joining the Comprehensive and Progressive Trans-Pacific Partnership – which now accounts for about 18% of global trade and 15% of global GDP – in December 2024, a variety of other jurisdictions accessions will now be considered. Costa Rica has formally commenced the accession process, while Mainland China,

Ecuador, Indonesia, Ukraine, Uruguay and Taiwan have applied. There are reports that the Philippines, South Korea and Thailand are also considering applying for CPTPP membership.

After a five-year pause, China, Japan and South Korea have reinitiated their trilateral FTA negotiations. The aim of this proposed FTA is to deepen economic integration and supply chain connectivity among East Asia's three largest economies.

The US will continue to negotiate bilateral deals with its trading partners ahead of and likely following the end of the 90-day pause on most reciprocal tariffs on 9 July. Negotiations are likely to focus on reducing tariffs, expanding market access and announcing purchase agreements for US exports. If deals are not reached and the US reimposes its reciprocal trade policy, it is expected that some US trading partners will impose retaliatory tariffs. Significant attention will be on US-China negotiations to maintain or extend bilateral tariff reductions before the 90-day pause expires in mid-August.

Business impact

Major sectors affected include industrial products, consumer goods, agriculture, technology and energy.

Trade agreements between two countries, or between a small number of countries, can shift the economic calculation for companies' decisions regarding where to invest in production locations and new supplier relationships and where to sell their products. Companies with operations in markets that enter into new trade agreements are likely to have new growth and investment opportunities. Executives should [monitor these trade negotiations](#) to position for any potential opportunities.

Debates around liberalizing agricultural trade are likely to continue to be a challenge for the EU to finalize and ratify new trade agreements. Companies in the agricultural sector in the EU and its trading partners should consider engaging with policymakers to inform trade negotiations.

Several of the new and prospective FTAs focus on liberalizing trade in modern sectors such as digital technologies and clean energy. Companies in these sectors may have new opportunities to expand their [supply chains](#) and customer markets if these FTAs are ratified.

As the governments in a variety of large economies – including China, the EU, India, Japan and the UK – seek to diversify their trade partners, US companies may face heightened competition in foreign markets and US-based producers may be increasingly isolated. At the same time, companies based in markets that continue to liberalize trade are likely to have new commercial opportunities while also exploring supply chain reorientation. Executives should closely monitor not only trade policy developments in Washington, but also those occurring in other markets around the world, for both risks and opportunities.

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

Additional reading: [How tax and trade leaders can prepare for global tariff disruption](#)

¹ EU-Mercosur partnership agreement https://ec.europa.eu/commission/presscorner/detail/en/ip_24_6244

² UK concludes trade deal with India – GOV.UK <https://www.gov.uk/government/news/uk-signs-trade-deal-with-india>

³ US and UK unveil trade deal <https://taxnews.ey.com/news/2025-1026-us-and-uk-unveil-trade-deal>

⁴ Joint Statement on U.S.-China Economic and Trade Meeting in Geneva – The White House <https://www.whitehouse.gov/briefings-statements/2025/05/joint-statement-on-u-s-china-economic-and-trade-meeting-in-geneva/>

⁵ EU-Mexico https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/mexico/eu-mexico-agreement_en

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Sector in focus: Energy

Banning Russian gas will create opportunities and challenges for Europe

What happened

European imports of Russian energy have fallen drastically⁶ since 2022, but reliance on Russian gas remains high at 19% of total imports, despite the Russia-Ukraine gas transit deal ending in 2024. This poses economic security risks and undermines the EU's efforts to isolate Russia economically.

Building on the REPowerEU 2022 program that aims to end the EU's dependency on Russian fossil fuel imports and accelerate the transition to clean energy, the European Commission in early May presented a roadmap⁷ for a gradual removal of Russian gas, oil and nuclear energy from EU markets, as the bloc diversifies energy supplies and continues its clean energy transition.

According to the new roadmap, EU member states will be barred from signing new contracts for Russian gas, with all remaining Russian gas imports ending by the end of 2027; measures to reduce reliance on Russian oil, nuclear fuel and uranium imports will be less stringent.

What's next

Legislative proposals to implement the Commission's plan will be presented in June and must be approved by a majority of EU member states and the European Parliament. If approved, member states would have to present plans by the end of the year on how they intend to phase out Russian energy imports.

For more information, contact [Andrew Horstead](#),
[Famke Krumbmüller](#).

Meanwhile, member states and the EU will step up efforts to invest in liquefied natural gas (LNG) projects abroad and increase energy imports, notably gas, from countries including⁸ the US, Norway and Qatar, and accelerate the transition to renewable energy sources. A European commitment to increase US LNG purchases could also help ease transatlantic trade tensions.

Business impact

European gas prices will primarily depend on gas demand from Asia and the availability of US LNG as Europe's ambition to phase out Russian gas has been largely priced in. European buyers will likely need to outbid other LNG consumers to secure the required cargoes. Global gas producers are therefore likely to enjoy higher prices for their products. European policymakers and energy executives should continue to be proactive on pricing to safeguard energy security.

European gas prices are significantly higher than US prices, a challenge for the competitiveness of energy-intensive European companies, particularly in context of higher US tariffs. Manufacturers and other significant energy consumers in Europe should explore process and product innovations that enhance their energy efficiency in order to control costs.

Additional reading: [Six actions to turn soaring energy demand into lasting prosperity](#)

⁶ Roadmap to fully end EU dependency on Russian energy – European Commission https://commission.europa.eu/news/roadmap-fully-end-eu-dependency-russian-energy-2025-05-06_en

⁷ REPowerEU roadmap – European Commission https://energy.ec.europa.eu/strategy/repowereu-roadmap_en

⁸ Subscribe to read <https://www.ft.com/content/aa9f1298-c62a-422c-ba12-5c410394ecce>

3 Other issues we are watching

India-Pakistan tensions, China-Philippines disputes, G7 summit outlook

India-Pakistan tensions will remain high despite ceasefire

The ceasefire between India and Pakistan is holding, but both countries remain on high alert after a series of intensive engagements in early May. Following the clashes, both governments have publicly committed to renewed negotiations over Kashmir, but so far, no plan to address key underlying issues, such as terrorism and resource management, has emerged. Water rights are a particular concern as India maintains the suspension of the Indus Waters Treaty that was originally announced in the wake of the terrorist attacks in Kashmir. Pakistan has requested that India lift the suspension to avoid water shortages in Pakistan.

Business impact: Heightened tensions over Kashmir pose potential operational, reputational and talent risks to India's business environment. If the ceasefire holds, the immediate economic impact is expected to be limited. Indian financial markets recovered quickly after an initial downturn and although tourism likely will be disrupted in the short term, it will likely rebound quickly absent further fighting. Greater tensions will reinforce demand for advanced military equipment in both countries, especially drones, aerospace systems and artillery. India's large indigenous defense industry⁹ will likely have growth opportunities as the government expands manufacturing capacity.

For more information, contact [Jay Young](#) and [Urvi Majhi](#).

China-Philippines territorial disputes could disrupt some economic activity

Incidents between China and the Philippines in the South China Sea have been frequent in recent months and are likely to remain a key area of contention in the region. Filipino President Ferdinand Marcos Jr. has notably taken an assertive stance on sovereignty issues and has focused on strengthening the Philippines-US alliance. The 12 May Philippines midterm elections produced a Senate that is more centrist and also more aligned to Vice President Sara Duterte, who historically has taken more moderate positions on China affairs. The outlook for Filipino policy has therefore become more uncertain.

Business impact: While mutual economic interests between China and the Philippines will likely prevent any material escalation that directly impacts trade and commerce, some sectors are disproportionately

exposed to higher uncertainties if the bilateral relationship deteriorates. Natural resource exploitation could be disrupted by contentious activities in the disputed waters of the South China Sea, which could affect the Philippines' plans for an energy [transition](#) away from coal. Philippines agricultural exporters may have reduced market access to China, as they have previously faced [restrictions](#) and trade barriers in China following bilateral disputes. For Chinese projects such as investments, the risks of disruptions, delays and cancellations are higher during periods of geopolitical tensions, such as on the Mindanao and PNR South Long Haul railway projects.

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

G7 Summit to provide signals on the condition of Western alliances

Canada will host the 50th annual Group of Seven (G7)¹⁰ summit from 15-17 June, bringing together the leaders of Canada, France, Germany, Italy, Japan, the UK and the US. Under newly elected Prime Minister Mark Carney's leadership, Ottawa's G7 presidency will likely focus on retaining G7 unity amidst geopolitical and trade policy tensions. A G7 Foreign Ministers' Statement¹¹ in March reflected a focus on maritime security, while the G7 Finance Ministers and Central Bank Governors in May focused on global economic resilience and security – both of which are likely to receive significant attention at the leaders' summit as well. An invitation to Ukrainian President Volodymyr Zelensky to attend will likely reinforce G7 members' commitments to Ukraine's defense.

Business impact: Artificial intelligence (AI) is likely to be high on the agenda as the G7 seeks to implement the [AI Principles and Code of Conduct](#), although debates may arise as some governments pursue divergent regulatory trajectories. Maritime issues related to the ["geopolitics of the oceans"](#) – including freedom of navigation in contested waterways, competition in the Arctic, the security of seabed internet cables and access to critical minerals – will highlight implications for global supply chains and could provide signals about potential ocean-based investment opportunities. CEOs and government affairs teams should [monitor](#) the G7 summit communiqué for commitments made by leaders on these issues.

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

⁹ BrahMos production unit in Lucknow set to be inaugurated today | Lucknow News – The Indian Express <https://indianexpress.com/article/cities/lucknow/brahmos-production-unit-in-lucknow-set-to-be-inaugurated-today-9995372/>

¹⁰ Canada's 2025 G7 Presidency <https://g7.canada.ca/en/>

¹¹ G7 Foreign Ministers' Declaration on Maritime Security and Prosperity <https://g7.canada.ca/en/news-and-media/news/g7-foreign-ministers-declaration-on-maritime-security-and-prosperity/>

4 Geostrategic indicator of the month

Strong correlation between increased US political risk and gold prices

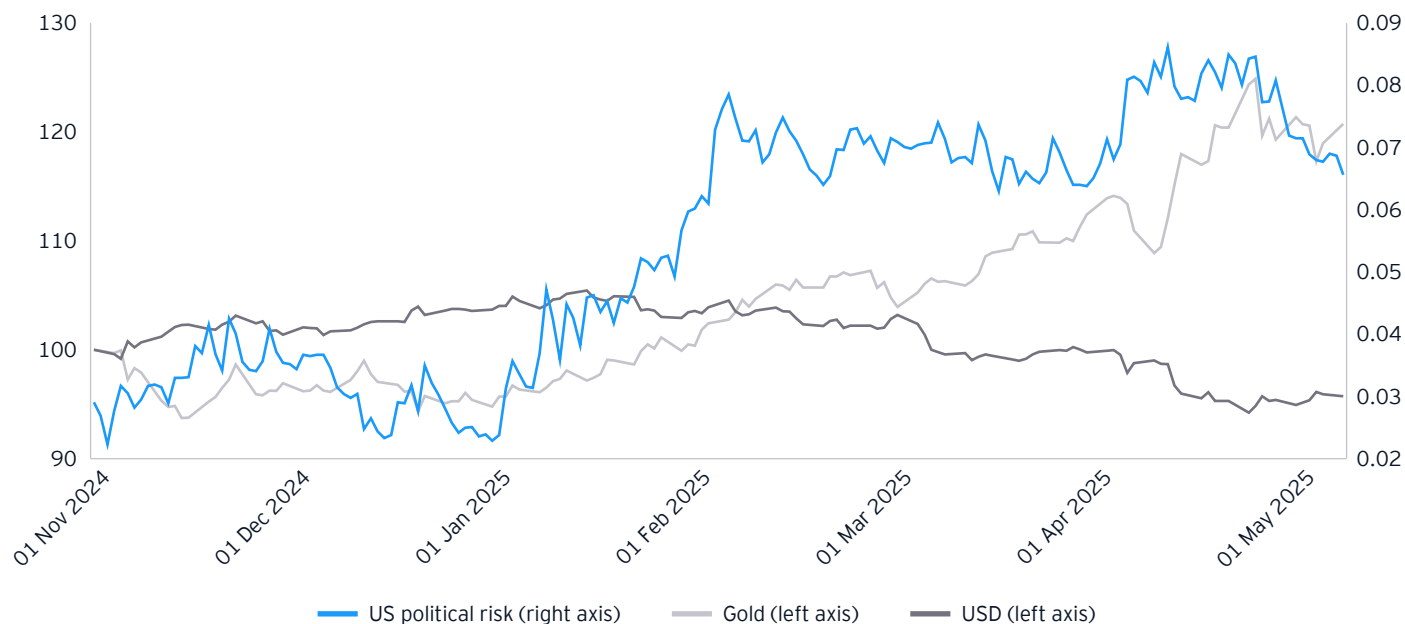
The indicator

For even longer than the US dollar and US treasuries, gold has been considered a safe-haven asset. As US political risk has gone up, so has the demand for and price of gold. GeoQuant's daily measure of US political risk has moved in tandem with the daily price of gold since the November 2024 election (with a correlation of 0.84). Meanwhile, higher US political risk has been unusually weighing on dollar-denominated assets, with the US dollar index (DXY) steadily weakening since January and US Treasury yield rising, potentially signaling an end to American exceptionalism in financial markets.

US financial market dynamics and volatility are increasingly driven by shifts in US political risk – similar to market dynamics in other countries. Consequently, it is imperative for [wealth and asset management](#) executives to monitor political developments and be prepared for negative impacts of US political risk on US assets. These fluctuations can directly affect asset valuations and investment returns, necessitating that businesses adjust their strategies and [risk management](#) frameworks accordingly to mitigate potential risks and capitalize on emerging opportunities.

As US political risk has risen, gold price has also risen but, atypically, the US dollar value has fallen slightly

US political risk vs gold price and US dollar index



Sources: GeoQuant, a Fitch Solutions Company; LSEG Datastream.

Note: USD is the trade-weighted value of the US dollar index (DXY) relative to a basket of international currencies. Gold is the price in USD. Gold and USD are indexed to the start date of the chart, 1 November 2024. Political risk is GeoQuant's high frequency (daily pulse) indicator that aggregates three pillars of country risk: governance, society and security; values above zero indicate rising risk and below zero indicate falling risk.

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