

# Geostrategic analysis

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

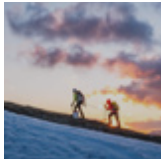
June 2026 edition



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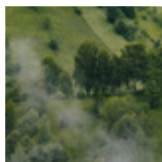
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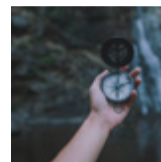
**Top development:**  
Uncertainty persists over USMCA extension.



**Sector in focus:**  
Technology.



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G7 faces divergences; Asia-Pacific countries expand energy security coordination; Ethiopia elections and policy outlook.



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Rising export restrictions on critical raw materials.

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# Top development

Uncertainty persists over USMCA extension.

**What happened:** The USMCA free trade agreement is scheduled for its six-year review<sup>1</sup>. If the parties do not agree to extend the agreement by 1 July, the agreement remains in place until 1 July 2036 and an annual review process will be initiated to address implementation concerns and agree on any revised terms for the agreement.

The US is seeking to renegotiate a number of commitments including select rules of origin, agriculture market access, digital services, improved enforcement of forced labor import bans, and transshipment of Chinese exports. Non-trade issues such as national security spending, border security and the development of critical minerals capabilities are also likely to feature in negotiations.

Mexico and Canada are seeking greater stability in the trading relationship and more favorable treatment from US unilateral tariffs.

**What's next:** The lack of a clear path toward USMCA renewal and under what terms it may proceed are creating heightened levels of uncertainty. There are four scenarios that could result from the negotiations that would be triggered if the agreement is not extended by 1 July. In order of increasing levels of disruption and uncertainty:

A negotiated extension would require meaningful economic and some non-trade concessions by Mexico and Canada. It could be a rhetorically volatile negotiation process, but would eventually lock in the terms of the agreement for the next 16 years (until 2042). Benefits to this approach would include an updated and more stable agreement, but the rebalancing of gains and losses for Mexico and Canada could create domestic political challenges in those markets.

Annual reviews would take place if the parties do not reach an agreement to extend the terms for a new 16-year term. In this scenario, annual reviews would occur through 2036. These reviews could lead to changes in the terms of the USMCA, although if changes cannot be agreed during this process, then the status quo would persist. The USMCA would therefore continue in this scenario, but annual negotiations would elevate ongoing uncertainty. If an agreement on extension is not reached by 2036, the USMCA would terminate at that point.

Shift to bilaterals would occur if no consensus is reached to extend the USMCA and the parties opt to replace it with bilateral trade agreements or another type of trade framework. This could require negotiating new trade agreements, which would create significant economic disruptions and challenge business models predicated on the integrated North American market.

Withdrawal from the USMCA is the final scenario. Any country can withdraw from the agreement with six months' notice. If one party

withdraws, the USMCA terms continue to apply to the remaining parties. Still, this would create significant economic disruption, uncertainty and political costs in all three countries.

**Business impact:** Major sectors affected include automobiles; industrials products; consumer products; mining and metals; oil and gas; and agriculture.

All tradeable goods sectors and their supply chains could be impacted, with the severity depending on the scenario. Sectors that will be impacted the most significantly include automobiles, industrial products, consumer products, mining and metals, oil and gas and agriculture. Increased uncertainty would worsen business conditions generally. But there may be growth opportunities for companies in some sectors - especially for US producers in scenarios that maintain and extend the agreement under new terms.

Manufactured products - particularly automobiles, given the industry's highly integrated [supply chains \(via EY.com US\)](#) - would be exposed to disruptions in trade flows and to changes in rules of origin that may be negotiated. Given the long lead-time for investments in the auto industry, any outcome that does not lock in the agreement for an additional 16 years would result in heightened uncertainty around investment decisions.

Canada's digital services regime has also been in the sights of US negotiators - a focus that could intensify following Canada's recent introduction of new requirements for Canadian content on the leading streaming services in the country. US negotiators would like to see convergence toward US standards in areas like data localization, interoperability and digital taxes. If such convergence is achieved, it could reduce compliance costs for US digital service providers.

The US and Canada are also seeking changes to Mexico's energy investment policies, which would allow for greater private sector involvement in Mexico's domestic production. The US is also seeking greater coordination and enhanced investment opportunities in critical minerals in North America. These efforts could create new [investment and growth opportunities](#) for companies in these sectors.

US producers in the [agriculture sector \(via EY.com US\)](#) could see market access gains in dairy and lumber depending on outcomes with Canada, and similarly with corn in Mexico. The US may also seek to restrict access to its market for Mexican tomatoes. Executives in the agribusiness, restaurant and grocery retail sectors should closely monitor negotiations for potential [supply chain implications](#).

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

Additional reading: [How companies can prepare for the USMCA review](#)

<sup>1</sup> USMCA Joint Review: Process and Role of Congress | Congress.gov (congress.gov), [https://www.congress.gov/crs\\_external\\_products/R/PDF/R48787/R48787.1.pdf](https://www.congress.gov/crs_external_products/R/PDF/R48787/R48787.1.pdf)

# Sector in focus: Technology

EU gradually moves toward more tech and data sovereignty.

## What happened

On 3 June 2026, the European Commission announced a series of legislative proposals and strategic roadmaps as part of a “Tech Sovereignty Package”<sup>2</sup> including the Cloud and AI Development Act and the Chips Act 2, aimed at strengthening domestic digital capabilities and reducing reliance on non-EU providers across cloud, semiconductors and digital infrastructure. For example, it aims to triple EU data centers capacity in the next five-to-seven years<sup>3</sup>.

The initiative comes against a backdrop of heightened political concern across EU Member States – including, most notably, France – regarding Europe’s lack of technology sovereignty, as more than 80% of key digital products, services and infrastructure are sourced externally<sup>4</sup>.

These concerns over external dependencies have been further amplified by rising trade and geopolitical tensions with both the US and China, including the risk of potential US trade restrictions in response to EU regulations perceived as targeting American tech companies.

## What’s next

While the proposed Cloud and AI Development Act introduces a definition of “sovereign cloud” service providers – emphasizing control over Europeans’ sensitive data – it remains unclear how this will be reflected in the final text agreed by EU Member States and how strictly it will be applied in allocating public incentives and procurement.

France and Germany are also expected to announce their own definition of “sovereign technology” at the international tech event Viva Tech in Paris on 17-20 June 2026, which is expected to be based on measurable factors such as company headquarters, the location of data and R&D, and workforce presence in Europe.

At the same time, concerns in some Member States over potential US retaliation could lead to efforts to dilute or delay implementation of the proposed sovereign technology labels.

Nevertheless, the EU and European national governments are expected to continue leverage subsidies and regulatory incentives to support investment in domestic cloud<sup>5</sup>, data centers, cybersecurity and AI solutions, as well as critical technologies such as semiconductors and quantum computing. European policymakers are also likely to seek to reduce dependencies on the US and China through diversification strategies, including more digital infrastructure partnerships and investments in “middle power” markets.

## Business impact

EU-based cloud and digital infrastructure (e.g., data centers) providers may benefit from increased public funding, as well as more procurement opportunities as public administrations shift toward domestic cloud solutions. They will also face rising demand for “sovereign” cloud solutions in the EU, with a May EY survey finding that 63% of tech companies developing AI in the region report sovereign AI requirements. At the same time, digital services providers will need to adapt operations to meet stricter energy efficiency and sustainability standards for data infrastructure, as well as growing local opposition to data center construction due to its impact on quality of life and power affordability.

Foreign technology providers are unlikely to be excluded from EU public procurement and funding but will need to align with evolving EU cloud and data sovereignty requirements and may need to consider [partnerships with local players](#) to strengthen access to public support. Executives should also monitor EU investment priorities and capture opportunities to invest in digital infrastructure in third markets supported by EU and European governments’ funding.

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

Additional reading: [How to enable data center growth and advance sustainability simultaneously](#)

<sup>2</sup> European Commission proposes new rules to strengthen EU tech sovereignty | European Commission Press Corner (ec.europa.eu) [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_26\\_1187](https://ec.europa.eu/commission/presscorner/detail/en/ip_26_1187)

<sup>3</sup> Proposal for the Cloud and AI Development Act (CADA) | Shaping Europe’s digital future (digital-strategy.ec.europa.eu) <https://digital-strategy.ec.europa.eu/en/library/proposal-cloud-and-ai-development-act-cada>

<sup>4</sup> Tech sovereignty | Shaping Europe’s digital future (digital-strategy.ec.europa.eu) <https://digital-strategy.ec.europa.eu/en/policies/eu-tech-sovereignty>

<sup>5</sup> Commission launches new strategy to make Europe a global leader in quantum by 2030 (ec.europa.eu), [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_26\\_833](https://ec.europa.eu/commission/presscorner/detail/en/ip_26_833)

# 3 Other issues we are watching

G77 faces divergences; Asia-Pacific countries expand energy security coordination; Ethiopia elections and policy outlook.

## G7 stress test amid intra-Western divergence

The G7 summit to be held on 15-17 June 2026 in France is likely to manage rather than resolve divergences among the members. Canada is likely to align more closely with European members at the G7, following Canada's participation at the European Political Community<sup>6</sup> summit on 4 May 2026 - the first inclusion of a non-European country - which signaled a hedging response to rising US policy uncertainty and tariff pressure<sup>7</sup>. The G7 summit will test whether transatlantic partners can reach common ground on key issues, particularly trade and AI governance. However, widening divergences - on relations with China, NATO commitments and support for Ukraine, and the conflict in the Middle East - are likely to constrain alignment. As a result, the June G7 may primarily try to manage internal divisions rather than drive unified outcomes - aiming for a more cohesive result than last year's summit, when US President Trump left early and there was no final communiqué.

**Business impact:** Tensions within the G7 could increase trade policy unpredictability, driving planning challenges and cost volatility. Potential tariff increases, retaliatory measures and policy reversals could disrupt trade flows across transatlantic and North American markets, particularly for sectors with high cross-border exposure such as automotive, metals, pharmaceuticals and advanced manufacturing.

In this context, executives should consider whether shifts in supply chain and investment strategies would position their companies for continued growth. This could include auditing supply chains, building scenario flexibility and introducing redundancy to sustain resilience and strategic optionality.

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

## Asia-Pacific middle powers explore closer energy security coordination

Japan's Defense Minister Shinjiro Koizumi is expected to meet with his counterpart Ahn Gyu-back in South Korea in June to discuss expanding defense cooperation. The meeting will build on the themes laid out in the 19-20 May 2026 summit in South Korea between the two countries' leaders, which focused on strengthening strategic cooperation, especially around energy security. More broadly, this is part of a shift in bilateral relations toward more practical cooperation. Energy security is also top of the agenda in Southeast Asia. At the 7-8 May 2026 ASEAN summit, leaders framed the conflict in the Middle East as a driver for accelerating practical energy security cooperation measures<sup>8</sup>, such as fuel-sharing and joint power grid initiatives - so more such measures may be forthcoming. This momentum may expand into more

institutionalized regional mechanisms, cross-border infrastructure investment, and accelerated regional trade agreement processes, particularly if energy market volatility persists.

**Business impact:** [Energy-intensive sectors](#), especially those with production facilities in Asia, such as manufacturing, aviation, and shipping, will likely face more volatile input costs and episodic supply disruptions driven by geopolitical developments, underscoring the need for long-term supply contracts, diversified fuel portfolios, and backup power capacity. [Procurement and supply-chain functions](#) will need more active, resilience-based inventory planning, scenario analysis and stress-testing of critical nodes, and pre-planned contingency arrangements. For example, firms can align with emerging regional fuel-sharing mechanisms or cross-border power initiatives, such as the expanded ASEAN Power Grid projects<sup>9</sup>, to secure priority access to energy and enhance operational resilience.

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

## Ethiopia elections proceed amid security risks

Ethiopia held general elections on 1 June 2026 amid elevated political tensions, persistent security challenges and macroeconomic pressures. The incumbent Prosperity Party is almost certain to retain its parliamentary majority, supporting policy continuity under Prime Minister Abiy Ahmed. However, insecurity in regions including Amhara, Oromia and Tigray hindered voting. High internal displacement and limits on opposition activity affected turnout and perceptions of credibility. Rising fuel prices and inflation are expected to continue to heighten socioeconomic pressures.

**Business impact:** In the near term, the post-election period is likely to see higher operational and security risks, particularly in conflict-affected regions. Disruptions to transport corridors and intermittent insecurity are likely to constrain [supply chains](#), logistics operations and workforce mobility. Foreign exchange constraints, currency volatility and elevated fuel costs will continue to increase operating expenses - particularly for import-dependent and transport-intensive sectors - while dampening [consumer](#) demand. Over the medium term, expected policy continuity may support ongoing liberalization in sectors such as telecommunications, logistics and energy, including reforms linked to IMF-supported programs. However, sustained investment will depend on improved security conditions, macroeconomic stabilization and the government's ability to manage external and domestic shocks.

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

<sup>6</sup> European Political Community meeting, 4 May 2026 (consilium.europa.eu), <https://www.consilium.europa.eu/en/meetings/international-summit/2026/05/04/epc/>

<sup>7</sup> The G7 in 2026: A difficult balancing act (europarl.europa.eu), [https://www.europarl.europa.eu/RegData/etudes/BRIE/2026/779864/ECTI\\_BRI%282026%29779864\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2026/779864/ECTI_BRI%282026%29779864_EN.pdf)

<sup>8</sup> ASEAN Power Grid (APG) (aseanenergy.org), <https://aseanenergy.org/apaec/asean-power-grid-apg>

<sup>9</sup> ASEAN Interconnection Masterplan Study (AIMS) III Phase 3: Implementation Strategy for Multilateral Power Trade in ASEAN (aseanenergy.org), <https://aseanenergy.org/publications/asean-interconnection-masterplan-study-aims-iii-phase-3-implementation-strategy-for-multilateral-power-trade-in-asean>

# 4 Geostrategic indicator of the month

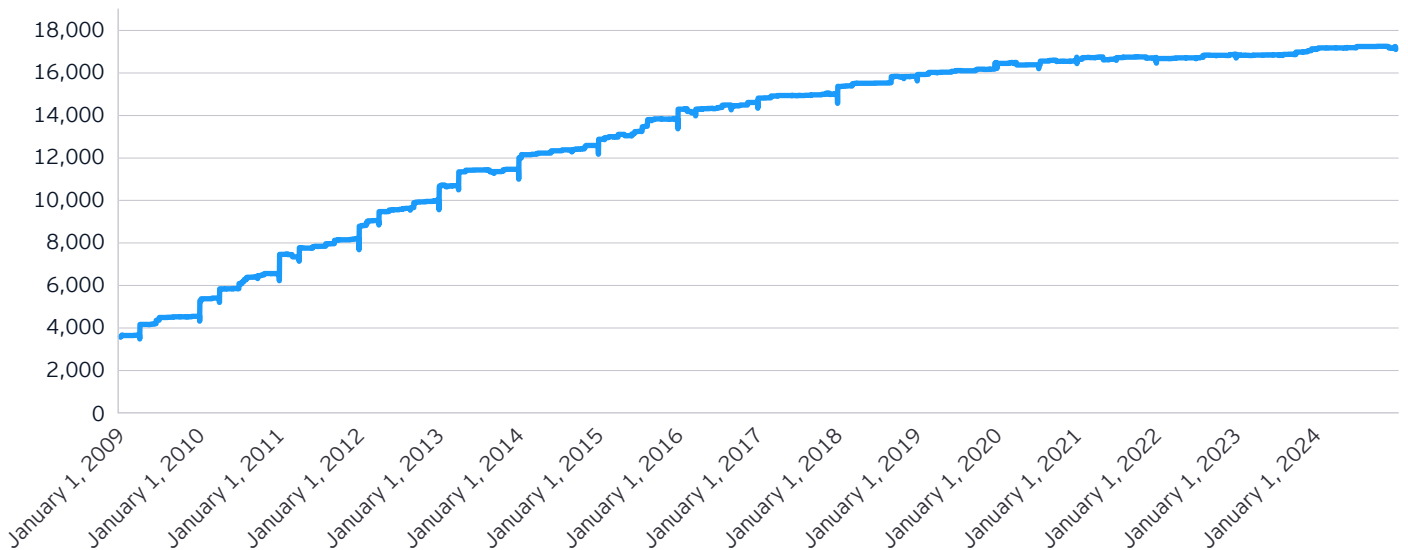
Rising export restrictions on critical raw materials are tightening global supply and driving price pressures.

## The indicator

The number of export restrictions on critical raw materials has increased fivefold since 2009 and remains at historically elevated levels, according to a recent OECD report<sup>10</sup>. Export taxes and licensing requirements remain the most widely used instruments, while more severe measures - such as export prohibitions - are also emerging, accounting for nearly a quarter of new restrictions in 2024. While such measures often aim to promote domestic processing, protect the environment, attract investment and generate revenue, restrictions - particularly those imposed by major producers - can generate significant spillovers for trading partners and trigger similar measures by other countries, driving price escalation and tightening global supply.

### Export restrictions on critical raw materials have grown fivefold since 2009

Number of exported raw material products subject to at least one export restriction measure globally



Source: OECD (2026), OECD Inventory of Export Restrictions on Critical Raw Materials 2026: Monitoring the Use of Export Restrictions Amidst Growing Market and Policy Tensions, OECD Publishing, Paris, <https://doi.org/10.1787/d5ca8f62-en>

Note: The count of all types of measures in place across all covered raw materials and all implementing countries, taking into account the stock of measures in place at the beginning of the period, as well as new additions and eliminations.

**Business impact:** As discussed in the 2026 Geostrategic Outlook, governments are introducing industrial policies that prioritize critical materials as strategic assets, creating opportunities for [mining and metals](#) companies across exploration, extraction and refining. Executives at companies that rely on critical mineral inputs should assess how the elevated level of export restrictions may affect access, pricing and [supply continuity](#). Metals and minerals companies could explore preferential financing, state-backed investments, incentives for domestic production, cofinanced infrastructure projects, partnerships, joint ventures and acquisitions that strengthen the critical materials value chain. Executives should also incorporate [geopolitical dynamics](#) into diligence activities and consider investments in advanced recycling capacity, material substitution, and innovation.

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

<sup>10</sup> OECD (2026), OECD Inventory of Export Restrictions on Critical Raw Materials 2026: Monitoring the Use of Export Restrictions Amidst Growing Market and Policy Tensions, OECD Publishing, Paris, <https://doi.org/10.1787/d5ca8f62-en>

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