

Geostrategic analysis

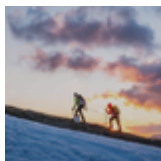
The EY-Parthenon Geostrategic Business Group's monthly analysis explores key geopolitical developments and their business impacts.

July 2025 edition



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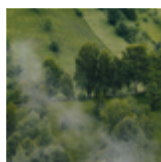
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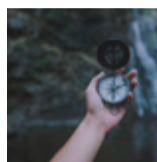
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Iran conflict resets
Middle East landscape



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Summit, AI governance developments



Geostrategic indicator of the month:
US extends tariff pause, maintaining
high tariff rates on China amid ongoing
trade negotiations

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Top development

Iran conflict resets Middle East landscape

What happened

On 12 June, a United Nations (UN) nuclear watchdog said Iran was not complying¹ with non-proliferation obligations.

Between 13 and 24 June, Israel conducted airstrikes against Iranian military targets and energy infrastructure with a stated goal of halting Iran's progress toward nuclear weapons capabilities. In response, Iran launched ballistic missile and drone attacks, with the stated goal to target strategic infrastructure in Israel. Military and civilian casualties were reported in both countries.

On 22 June, the US took military action against three sites in Iran linked to its nuclear research program. Iran then undertook what most commentators described as a limited attack on a US military base in Qatar.

A ceasefire went into effect on 24 June but tensions and escalatory rhetoric have continued.

What's next

A near-term scenario of continued de-escalation of the conflict is most likely. The stated achievement of operational objectives by the US and Israel could limit their desire for further attacks. Tehran's decision to deescalate is likely driven by the limitation of its military capabilities and lack of support from allies, factors that are expected to persist.

In this scenario, the US is likely to push for continued negotiations on Iran's nuclear program and potentially missile programs. How such negotiations play out depends on a variety of factors, including the Iranian government's willingness to prioritize sanctions relief over its long-standing nuclear ambitions, the specific objectives of US negotiators and the potential role for Gulf states in these talks.

Another potential short-term scenario is for hostilities to resume and possibly escalate. Without diplomatic agreements, Tehran and regional proxies might accelerate covert activity as well as operations against Israel and possibly the US. Such actions could include renewed military attacks, targeted attacks via proxy groups or cyber-attacks on critical infrastructure or other targets. Given long-standing tensions in the region, any actions could be misinterpreted, leading to a risk of unintended escalations.

No matter which scenario prevails in the short term, recent hostilities will lead to lasting consequences for the Middle East. Israel's cementing of its role as a significant regional power may encourage countries in the region to accelerate their relationship building with Israel.

The durability of Iran's regime and its external support may be called into further question, with the potential for domestic instability. Other regional powers, such as Türkiye, may seek to expand their influence and own defense spending. And recent events may motivate Brussels, Moscow and Beijing to recalibrate their own geopolitical posture in the Middle East – particularly given NATO members' recommitment to collective defense at their recent summit.

Business impact

Major sectors affected include energy and resources, hospitality, logistics and aerospace and defense.

The risk of disruption at the Strait of Hormuz remains elevated. As a result, companies and traders should be ready for possible fluctuations in oil and gas pricing or potential supply shocks, although these impacts will likely be mitigated by high global production capacity levels, including significant production from non-OPEC countries, and generally weak global demand. Additional concerns include potential Houthi attacks on Red Sea global shipping (a possibility still causing some diversions in maritime activity), and interruptions to fertilizer production in Iran, which could affect global agricultural supply chains. However, the negative potential impact to Asian markets, which consume more than 80% of the oil and gas that flows through the Strait, may deter severe maritime disruptions. Energy companies should nonetheless [review their global distribution](#) strategies and logistics companies should consider alternate trade routes.

At the height of recent hostilities, several global airlines canceled flights to the Middle East and passing through regional airspace. As long as tensions remain elevated, some logistics and travel disruptions are likely to continue.

Global companies with operations in Israel – and in the broader region if the conflict escalates again – could face operational disruptions and labor shortages due to military service requirements and worker safety concerns. Executives should re-evaluate their business continuity and contingency plans, including potential future employee evacuations.

The proven effectiveness of various military weaponry products could lead to increased global investment in advanced technology, such as missile and UAV defense systems. The priorities of European defense technology investment, which is set to rise, may be influenced by the military dynamics of the Middle East conflict. Aerospace and defense companies should reassess their R&D investments and [strategies](#).

For more information, contact [Courtney Rickert McCaffrey](#) and [Ben-Ari Boukai](#).

Additional reading: [How potential Middle East conflict scenarios could affect businesses](#)

¹ UN Report on Iran Conflict | United Nations (un.org) <https://news.un.org/en/story/2025/06/1164291>

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Sector in focus: Life sciences

A potential policy-driven global realignment for the life sciences industry

What happened

The life sciences industry is highly globalized, although EY estimates that the US accounted for 45% of new pharmaceutical products² and 51% of all global drug sales³ in 2024. China is a primary source of raw materials and manufacturing and a growing source of innovation, while Europe is a key manufacturer of complex biological products, and India the world's largest producer of generic drugs.

Recent US policy announcements – including the announcement of tariffs on medical devices and plans to tariff pharmaceutical imports, the push for Most Favored Nation (MFN) pricing agreements with pharmaceutical companies and the reduction of National Institutes of Health funding of biomedical research – are accelerating a potential geographical re-balancing of the industry.

What's next

US policies may boost investment in some life sciences manufacturing and R&D sites in the US, and could prompt some companies to reassess operations in Europe previously influenced by tax and regulatory advantages among other strategic considerations.

President Trump has said the US will eventually impose new tariffs on finished pharmaceutical products, following a national security review.

For more information, contact [James Evans](#) and [Lisa LaMotta](#).

Even without these, tariffs on raw materials are expected to drive up logistical costs and ultimately increase prices. Tariffs on pharmaceuticals could also lead to shortages and stockouts.

Prices in other markets could increase in tandem with US prices, but European single-payer systems are unlikely to accommodate these increases, so potential “drug loss” and “drug lag” there are possible (such as is already seen in Japan, albeit for different reasons).

Business impact

Uncertainty around the industry's future revenue model has contributed to reduced venture capital (VC) and M&A investment in the US and European life sciences start-up sectors, the major traditional source of life sciences innovation. The industry may increase its investment on Chinese R&D, which continues to flourish.

Policy changes may drive fundamental re-orientation among life sciences companies. Pharmaceutical supply chains, for example, may shift from globalized to a mix of global and regional sites with some onshoring and some outsourcing to balance cost, regulatory compliance and flexibility.

Additional reading: [EY Biotech Beyond Borders Report 2025](#)

² Novel drug approvals for 2024 | US Food & Drug Administration <https://www.fda.gov/drugs/novel-drug-approvals-fda/novel-drug-approvals-2024>

³ IQVIA Quarterly Pharmaceutical Market Outlook Report | IQVIA <https://www.iqvia.com/library/white-papers/iqvia-quarterly-pharmaceutical-market-outlook-report>

3 Other issues we are watching

Geopolitical competition over critical minerals, climate unity at BRICS Summit, AI governance developments

Geopolitical competition over critical minerals will persist

In an apparent response to the US imposition of tariffs on China, Beijing recently introduced new export licensing requirements on certain rare earth elements, such as terbium. These critical minerals are essential for supply chains associated with the energy transition and manufacturing semiconductors. While these requirements could ease as a result of US and Chinese trade negotiations, the move will likely prompt the US, EU and others to push for more substantial diversification efforts. A recent International Energy Agency (IEA) report⁴ highlights the geographic concentration of refining energy minerals has actually increased in recent years across nearly all critical minerals – from about 82% in 2020 to 86% in 2024.

Business impact: Due to the high concentration of supply, companies relying on critical minerals for their products, including those in the renewable energy, automotive and electronics industries, are highly vulnerable to supply shocks. This highlights the need to review supply chains and consider diversification strategies. However, this is not always possible: for instance, China refines 91% of all rare earth products. Therefore, executives may consider stockpiling critical inputs to improve resilience to short-term supply shocks and advocating for more domestic mining and refining activities. Meanwhile, the growing urgency to diversify critical minerals supply chains provides an opportunity for mining companies to invest in new projects and markets.

For more information, contact [Courtney Rickert McCaffrey](#) and [Anna-Carina Hamker](#).

Climate unity and currency debate at the BRICS Summit

Brazil hosted the BRICS Leaders' Summit in early July, at which the group presented the Framework Declaration for Leaders on Climate Finance⁵ as a guide for the flow of climate finance to developing nations. The BRICS+ countries are likely to promote this at the COP30 UN climate conference that Brazil will also host in November. The summit declaration⁶ supported further reforms in the multilateral development banks and the UN system, including expanding Security Council membership, and called for peaceful settlements in ongoing wars and conflicts. BRICS leaders also reiterated their support of the New Development Bank and efforts to “de-risk” strategic investments and facilitate cross-border payments using currencies other than the US dollar. The summit also celebrated the inclusion of new members, in particular Vietnam which joined the grouping as a “partner country” in June.

Business impact: Continued expansion of BRICS members is likely to open up new sources for business financing and investment and lower trade barriers, through partnership with BRICS institutions like the New Development Bank and in priority sectors such as infrastructure financing. The Framework declaration could help drive consensus at COP30 and create opportunities for private financing of climate projects across BRICS countries and other emerging markets, particularly via the new Tropical Forest Forever Fund. Businesses operating in BRICS countries should monitor policy messages from the summit as they will likely provide an indication of priority sectors for government investment and focus areas for domestic reforms and market access, as well as potential changes in regulation and [compliance requirements](#) (such as new carbon measurement standards).

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

AI governance focus grows as global innovation scales

The International Telecommunication Union, the UN agency for digital technologies, hosted the AI for Good summit⁷ in early July following the adoption of the Global Digital Compact on AI governance and digital cooperation in late 2024. The summit focused on exploring the ability of AI to advance sustainable development, including addressing concerns on global digital divides and climate change. The summit closely followed the recent G7 leaders' statement⁸ on AI for prosperity and efforts to simplify EU AI Act requirements – both of which suggest a shift in focus from regulation toward innovation and economic benefits.

Business impact: A recent EY [study](#) shows divergence across societies in terms of trust in and use of AI, while there is broad skepticism about how companies and governments will manage AI. These results underscore calls by some business leaders for clearer AI standards that address such gaps in trust and the growing risks of regulatory fragmentation. As AI governance and standards expand, businesses will increasingly need to adopt new [processes and assurances](#) over the effectiveness of their AI tools. Companies will also need to develop more robust advocacy and [policy monitoring](#) capabilities to influence complex policymaking environments and maintain awareness of regulatory and stakeholder requirements.

For more information, contact [Adam L Barbina](#) and [Ansgar Koene](#).

⁴ Global Critical Minerals Outlook 2025 | International Energy Agency (iea.org) 1. <https://www.iea.org/reports/global-critical-minerals-outlook-2025/executive-summary>

⁵ BRICS Climate Finance Recommendations Ahead of COP30 | BRICS (brics.org) <https://cop30.br/en/news-about-cop30/ahead-of-cop30-the-brics-issued-their-first-climate-finance-recommendation>

⁶ BRICS Summit | BRICS (brics.org) <https://brics.br/en/news/brics-summit-signs-historic-commitment-in-rio-for-more-inclusive-and-sustainable-governance>

⁷ AI for Good Summit | International Telecommunication Union (itu.int) <https://aiforgood.itu.int/>

⁸ G7 Leaders' Statement on AI Prosperity | Government of Canada (pm.gc.ca) <https://www.pm.gc.ca/en/news/statements/2025/06/17/g7-leaders-statement-ai-prosperity>

4 Geostrategic indicator of the month

US extends tariff pause, maintaining high tariff rates on China amid ongoing trade negotiations

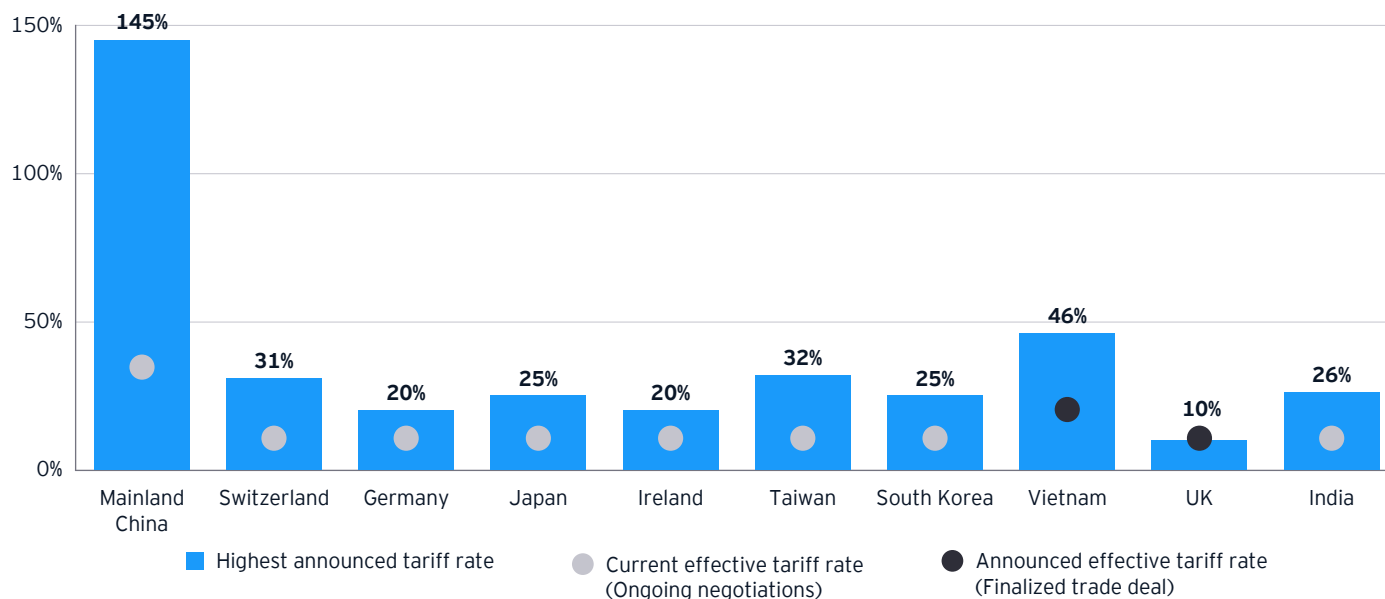
The indicator

One day before the end of the 90-day suspension of “reciprocal” tariffs on 9 July, the US announced the extension of the tariff “pause” until 1 August. Although the US agreed to trade deals with the UK and Vietnam, its bilateral trade negotiations with many other countries are still in progress, and more time is needed to reach a conclusion. China-US trade continues to face high tariffs, with the suspension of even higher tariff rates remaining in effect until 12 August, after which a 55% tariff is expected to be implemented in accordance with a newly established framework⁹. In aggregate, the average US tariff rate remains the highest since before World War II.

Business impact: Tariff measures affect companies’ operations and supply chains by changing the cost structure of supplier decisions. And tariffs are an indirect tax, so they also affect companies’ finance and tax function. The shifting US tariff rates in recent months introduce challenges associated with uncertainty about prices and supply—which is adding complexity to global operations and supply chain strategy. Executives should prioritize [supply chain](#) resilience, monitor [trade policy developments](#) closely, and incorporate different tariff scenarios into strategic planning to mitigate potential disruptions and maintain competitive positioning.

Following the initial 90-day pause on reciprocal tariffs, several of the US's largest trading partners remain in negotiations to reduce rates

Top 10 US trading partners subject to “reciprocal” tariffs, by current effective and highest announced tariff rates



Source: White House

Note: The US's top trade partners appear in order from largest (left) to smallest (right) on the graph. Mexico and Canada are excluded from this analysis, as the US did not announce “reciprocal” tariffs on these countries.

Additional reading: [Trade compass](#) | [Macroeconomics Team](#)

⁹ U.S.-China Trade Deal and International Trade Updates | World Economic Forum (weforum.org) <https://www.weforum.org/stories/2025/06/us-china-deal-and-other-international-trade-stories-to-know-this-month/>

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