Geostrategic analysis

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

September 2025 edition

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Translating geopolitical insights into business strategy

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Top development

AI innovation amid global policy fragmentation poses challenges for companies across sectors.

What happened

In April, the EU launched the AI Continent Action Plan[1], emphasizing the development of AI infrastructure, improved data access for businesses and enhanced AI skills development to help Europe become more competitive in AI.

In July, the US President unveiled America's AI Action Plan[2], outlining efforts to fast-track innovation, infrastructure and international leadership. Additional executive actions seek to promote US AI exports and infrastructure, streamline regulations for data centers and ban[3] "woke" AI large language models (LLMs) within the federal government. The new plan contrasts with Biden-era policies focusing on AI safety and trustworthiness.

Also in July, China's Ministry of Foreign Affairs announced its Global AI Governance Action Plan[4] emphasizing global coordination on AI governance — especially through multilateral institutions like the UN.

The measures add to an increasingly complex global policy landscape. The European Union's AI Act[5], China's Interim Measures for the Management of Generative Artificial Intelligence Services and Saudi Arabia's proposed Global AI Hub Law[6] are just a few of recent extraterritorial laws impacting business strategies for AI, data and governance.

What's next

The US AI Action Plan will continue to be implemented as multiple agencies and offices require consultation and action, including the Federal Trade Commission and the Office of Science and Technology Policy (OSTP). The ultimate policy and regulatory impact is still to be determined and may be slowed by interagency processes.

In the US, state level AI legislation, such as in California and Colorado, may face pressure. The Office of Management and Budget (OMB) can now work with federal agencies that have AI-related funding programs to consider a state's "AI regulatory climate" when making public funding related decisions. The Federal Communications Commission (FCC) has also been tasked with evaluating whether state-level AI regulations have any negative influence on its mandate.

China is expected to continue influencing international standards through multilateral efforts, including at the International Telecommunication Union (ITU). Beijing will also continue to push for the implementation of the United Nations' Global Digital Compact, which would establish interoperable national data governance frameworks and promote efforts to counter disinformation. China also supports the creation of an Independent International Scientific Panel on AI and Global Dialogue on AI Governance through the UN system.

The EU is expected to encourage AI adoption and minimize regulatory burdens, including via the "digital omnibus" that Brussels plans to release later in the year. The timeline of the AI Act implementation is also currently under review.

Business impact

The most directly affected sector is technology, but technology functions within companies across all sectors will be materially affected.

The latest push on "AI action" across jurisdictions aims to remove barriers to private-sector AI development. As a result, chief technology officers across sectors should assess how these actions may create opportunities to adopt and scale AI within their organizations. One example is investing in AI-driven cybersecurity tools and services to automate the first line of defense against cyber-attacks.

At the same time, multinational companies could increasingly face regulatory fragmentation and complexity. Companies deploying AI in multiple jurisdictions could be subject to overlapping and conflicting compliance requirements involving data subject privacy, sovereign cloud mandates, data quality standards and intellectual property rights. Executives should adapt internal governance, redesign policies, and make targeted infrastructure investments — such as relocating or segmenting AI data centers — to meet conflicting jurisdictional requirements. This reshaping of operations risks higher costs, reduced agility and prolonged deployment timelines for AI-driven services.

Differing regional priorities — such as the US push for "unbiased" AI models versus the EU's emphasis on responsible AI and privacy — are redefining market entry requirements. Winning public sector contracts will increasingly require compliance with country-specific requirements, such as proof of AI model transparency, ethical governance and standards aimed at different policy goals.

AI assessments, including model audits, risk assessments and compliance evaluations are likely to become more common as executives seek to better understand the risks of AI. This includes both mandatory and voluntary assessments.

The proliferation of AI introduces heightened IP and content liabilities stemming from new and synthetic data, and questions around the transparency and auditability of AI training data and ultimate ownership. Stricter data localization rules and enforcement across jurisdictions are pushing firms to segregate datasets, implement jurisdiction-aware processing and renegotiate cloud contracts. Without robust governance frameworks, companies risk legal exposure, degraded model performance and cross-border latency challenges.

For more information, contact Courtney Rickert McCaffrey and Andrew Young.

Additional reading: How AI assessments can enhance confidence in AI

1. "AI Continent Action Plan," European Commission website, digital-strategy.ec.europa.eu/en/library/ai-continent-action-plan.
2. "America's AI Action Plan," The White House website, whitehouse.gov/wp-content/uploads/2025/07/Americas-AI-Action-Plan.pdf.
3. "Preventing 'Woke' AI in the Federal Government," The White House website, whitehouse.gov/presidential-actions/2025/07/preventing-woke-ai-in-the-federal-government/.
4. "Global AI Governance Action Plan," Ministry of Foreign Affairs of the People's Republic of China website, fmprc.gov.cn/eng/xw/zyxw/202507/t20250729_11679232.html.
5. "EU AI Act: First Regulation on Artificial Intelligence," European Parliament website, europarl.europa.eu/topics/en/article/20230601STO93804/eu-ai-act-first-regulation-on-artificial-intelligence.
6. "Global AI Hub Law," Saudi Arabia National Competitiveness Center website, istitlaa.ncc.gov.sa/en/Transportation/citc/globalailaw/Pages/default.aspx.

2 Sector in focus: Financial Services

Global regulatory divergence will further complicate financial services operations.

What happened

Heightened geopolitical volatility and ongoing risks to the macroeconomic environment globally are creating new uncertainties and fragmentation in financial services regulation. Country variances are growing across key areas of industry growth — including digital assets, AI and data — alongside traditional areas such as financial stability.

This divergence and diminishing confidence in international cooperation has prompted a new supervisory focus on banking business models and governance, financial strength and operational resilience, notably in the EU.

What's next

With asymmetric progress on the global implementation[7] of Basel standards in banking prudential regulation so far, changes to banking financial stability regulations in the US will be closely monitored. An update from the US Federal Reserve is imminently expected.

Developments in digital assets regulation will further drive new activity by various market participants. Momentum will likely continue to differ across jurisdictions, as recently evidenced by the US GENIUS Act[8] which focuses on legal and regulatory frameworks for stablecoins.

The EU supervisory agenda is likely to remain stable, prioritizing the recently released Competitiveness Compass and Savings and Investment Union (SIU) Strategy. These aim to strengthen supervisory convergence tools and achieve a more unified supervision of capital markets. For instance, the SIU may transfer certain supervisory tasks to the central EU level.

Business impact

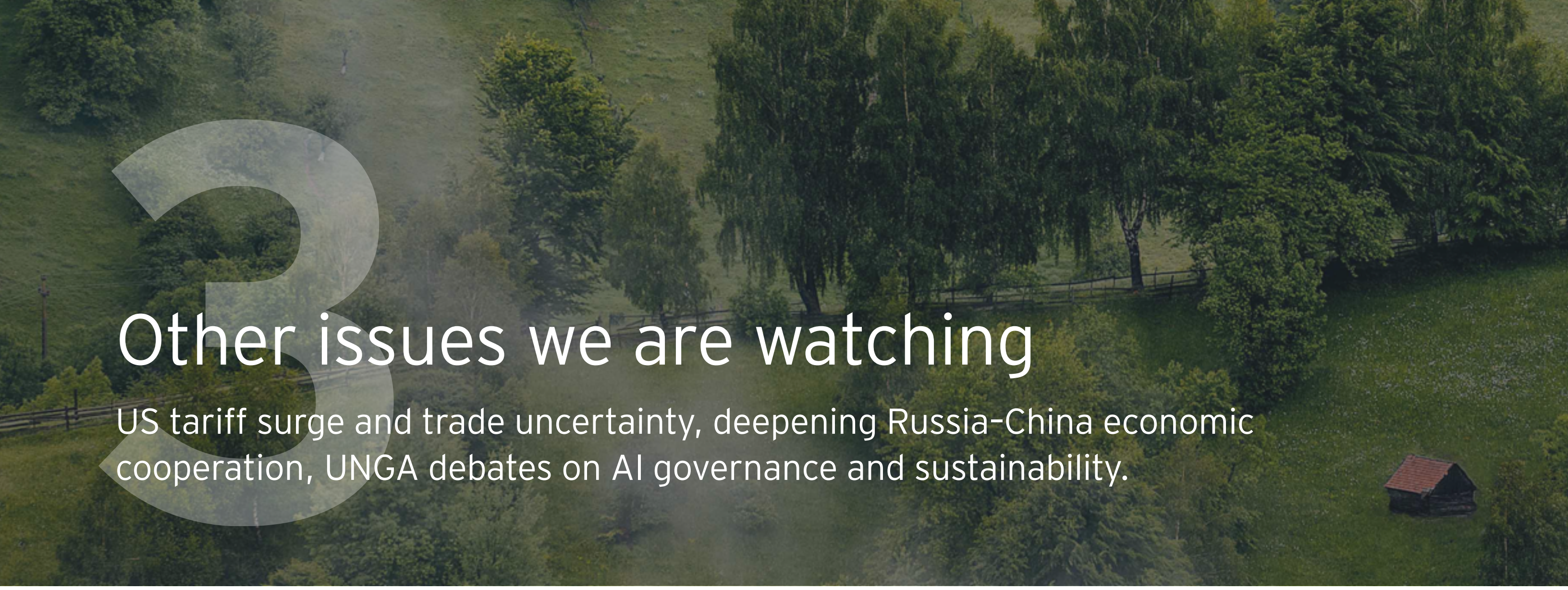
Financial services firms, particularly those with cross-border operations, face a broad range of pressures in this environment, with impacts across supply chain and operations, digital technology, strategy, regulatory compliance and stakeholder management more broadly.

The convergence of geopolitical risk, operational resilience requirements and technological innovation will continue to impact national and global business models. Regulated firms should expect perennial regulatory themes (e.g., capital adequacy, liquidity, governance) to be supplemented with emerging risk focus areas like non-bank financial institutions, digital assets, data and AI. Executives should prepare for regulators to look at how firms navigate change with operational, cyber and prudential resilience, as an extension of their ongoing focus on effective board oversight and risk culture.

For more information, contact Christopher Woolard CBE, Karl Meekings and Danielle Grennan.

Additional reading: Four regulatory priorities to drive financial institutions' focus in 2025

7. "Regulation Prioritizes National Interests: How Does This Impact Global Banking?," LinkedIn website, linkedin.com/pulse/regulation-prioritizes-national-interests-drive-how-does-woolard-cbe-vth5e.
8. "President Donald J. Trump Signs GENIUS Act into Law," The White House website, whitehouse.gov/fact-sheets/2025/07/fact-sheet-president-donald-j-trump-signs-genius-act-into-law/.



3 Other issues we are watching

US tariff surge and trade uncertainty, deepening Russia-China economic cooperation, UNGA debates on AI governance and sustainability.

US tariff dynamics challenge operating strategies

Broad-based US tariffs[9] on goods trade went into effect on 7 August, with the enactment of new, higher tariffs on imports from most countries. EY-Parthenon estimates that the average US tariff rate is now 17.6%, a dramatic increase from the 2.8% rate at the start of 2025 and the highest level since the 1930s. Uncertainty about US trade policy remains. Notably, negotiations with the US's largest trade partners — Mexico, Canada and China — are ongoing. Potentially far-reaching, sector-focused tariffs on pharmaceuticals, semiconductors and critical minerals are expected in the near term. Subsequent actions are likely to focus on competitiveness, national security and concerns over transshipment of goods from China via other countries.

Business impact: US trade actions reflect an "America First" policy agenda. In the short term, companies across sectors will face rising costs for imported inputs. Executives should explore cost reduction and efficiency measures and assess their ability to pass higher costs on to customers. In the long term, the US withdrawal from long-standing international trade norms is likely to drive new trade routes and supply chain reorientation. Multinational companies will need to continually assess their exposure to trade and investment policies motivated by economic security rationales. In parallel, executives need to adapt strategies to meet multiple and potentially diverging customer and policymaker expectations.

For more information, contact Evan Giesemann.

China-India-Russia engagement suggests push for alternative global economic order

Chinese president Xi Jinping hosted Russian President Vladamir Putin, Indian Prime Minister Narendra Modi and North Korean Supreme Leader Kim Jong Un in Tianjin, China for the Shanghai Cooperation Organization (SCO) summit. Putin and Kim also attended the 3 September military parade celebrating the 80th anniversary of the end of World War II. The meeting of the leaders suggests closer coordination and a shared interest in creating an alternative, emerging market-led economic system. Xi's statement at the SCO meeting[10] proposed a new "Global Governance Initiative", which reinforced a commitment to building a new economic order outside of traditional western economic and financial systems, with a focus on regional integration in emerging markets.

Business impact: Increased cooperation between China, Russia, India and other emerging markets is likely to continue to shift global trade patterns and introduce new opportunities and challenges for certain companies. New long-term energy contracts and infrastructure projects will increase China's access to discounted Russian oil and gas. But China's dependence on Russian energy may deter or redirect investment away from rival projects. Trade and financial services in the region are likely to see a further expansion of transactions in local currencies and alternative payment ecosystems outside the US dollar. While these developments may provide growth opportunities to some companies, they may expose some multinational companies to sanctions and trade and investment restrictions. Executives should assess supplier risks accordingly.

For more information, contact David Li.

United Nations highlights geopolitical tensions amidst shared challenges

The 80th session of the United Nations General Assembly (UNGA)[11] occurring later this month comes at a fractious moment in international relations, animated by competing visions for global governance and a pivotal moment for the UN itself, with reform high on the agenda. It is therefore unlikely that significant agreements will be struck within the forum. Leaders are likely to focus on the state of conflicts in Ukraine and in the Middle East, Washington's evolving global role and trade policies, shrinking foreign aid budgets and the governance of AI and other strategic technologies. A parallel focus on the UN's 2030 Sustainable Development Goals[12] will review progress and highlight the risks of not closing[13] remaining gaps. Additional funding to meet the estimated $4 trillion shortfall is not expected to materialize, however.

Business impact: The acceleration and scale of global threats, from climate disruption to conflicts and political instability, pose a material risk to many companies and could impact investment planning and long-term growth. Executives should track the debates on AI and digital policies and frameworks as indications of how AI regulations are likely to evolve, recalibrating technology strategies and AI solutions accordingly. Similarly, executives should monitor how sustainability and climate investment discussions progress, both during UNGA and the concurrent Climate Week NYC. To navigate what's ahead, companies need a sharper understanding of the shifting multilateral landscape, knowing where to engage and how to position for long-term resilience.

For more information, contact Ben-Ari Boukai and Tate Ryan-Mosley.

9. "Further Modifying the Reciprocal Tariff Rates," The White House website, whitehouse.gov/presidential-actions/2025/07/further-modifying-the-reciprocal-tariff-rates/.
10. "Pooling the Strength of the Shanghai Cooperation Organization to Improve Global Governance", Ministry of Foreign Affairs, People's Republic of China, https://www.fmprc.gov.cn/mfa_eng/xw/zyxw/202509/t20250901_11699629.html
11. "UN General Assembly 80th Session," United Nations Foundation website, unfoundation.org/unga80/.
12. "Sustainable Development Goals," Global Goals Week website, globalgoalsweek.org/.
13. "Risks of Not Closing SDG Gaps," United Nations News website, news.un.org/en/story/2025/04/1162671.

Geostrategic indicator of the month

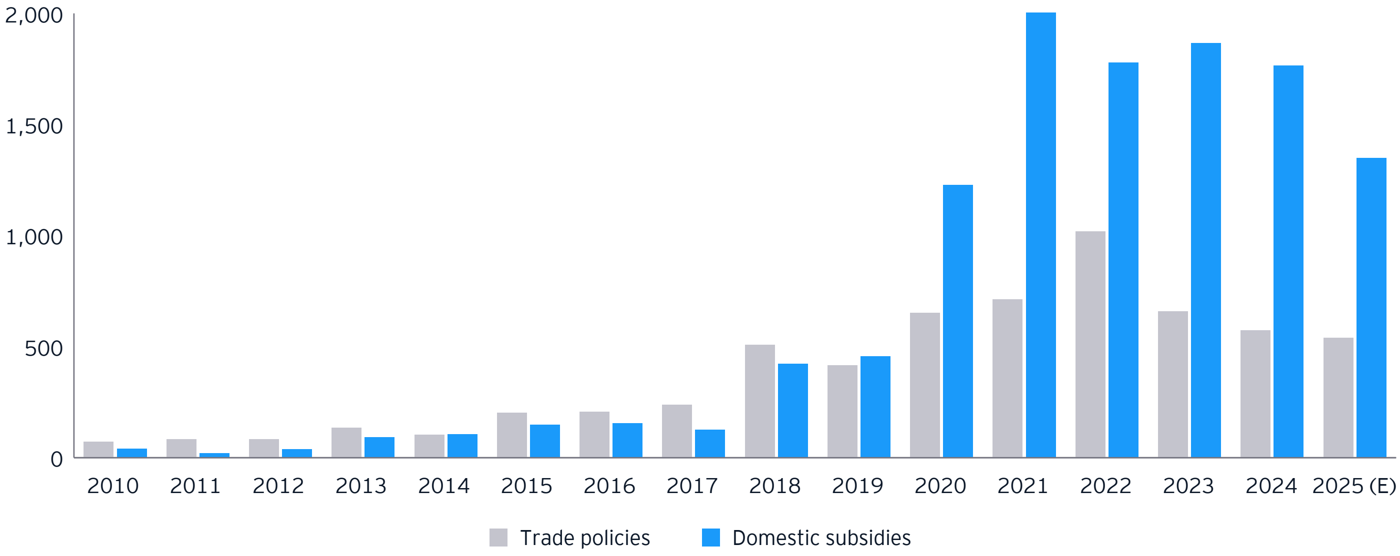
Governments expand domestic subsidies, boosting strategic sectors but heightening trade tensions.

The indicator

Governments have significantly expanded domestic business subsidies[14], with the number of new initiatives announced globally trebling between 2019 and 2024, based on data from the IMF Global Trade Alert database. Initiatives such as grants and tax incentives to research and development are being used to bolster strategic industries[15], enhance resilience, and advance objectives including exports, decarbonization and technological competitiveness. This surge may strengthen domestic firms' competitiveness but also risks market distortions and inefficiencies, trade retaliation, and economic fragmentation[16]. However, with many governments facing fiscal constraints due to high levels of debt and deficit constraints, policymakers will need to be selective about any new support programs.

Governments are increasingly turning to domestic subsidies as a trade policy tool

Number of newly introduced restrictive policies globally, by type



Source: Global Trade Alert database; IMF 2025 External Sector Report

Business impact: Companies can capitalize on rising domestic subsidies and industrial sovereignty initiatives by aligning operations within targeted sectors, localizing supply chains, and establishing partnerships that meet eligibility criteria. These incentives present opportunities for cost reduction and competitive advantage, especially in the automotive and clean tech sectors. However, foreign companies may face disadvantages, potentially further reducing global trade and investment. In addition, firms must navigate compliance risks, evolving regulations and geopolitical tensions that may limit access or provoke retaliatory measures in international trade frameworks. Future-oriented scenario analysis that incorporates the potential impact of these initiatives is essential.

Additional reading: How government leaders are rebuilding a sovereign industrial policy

14. "Trade Spillovers of Domestic Subsidies," International Monetary Fund website, imf.org/en/Publications/WP/Issues/2024/03/01/Trade-Spillovers-of-Domestic-Subsidies-545453.
15. "How Governments Back the Largest Manufacturing Firms," OECD website, oecd.org/en/publications/how-governments-back-the-largest-manufacturing-firms_d93ed7db-en.html.
16. "EBRD Warns Its Economies to Take Care with Industrial Policies," EBRD website, ebrd.com/home/news-and-events/news/2024/ebrd-warns-its-economies-to-take-care-with-industrial-policies.html.

Contacts


Oliver Jones
London
oliver.jones@uk.ey.com


Angelika Goliger
Johannesburg
angelika.s.goliger@za.ey.com


Mary Karol Cline
Washington DC
mary.k.cline@ey.com


Courtney Rickert McCaffrey
Washington DC
courtney.r.mccaffrey@ey.com


Adam Barbina
New York
adam.l.barbina@parthenon.ey.com


Ari B. Saks Gonzalez
Mexico City
ari.b.saks.gonzalez@mx.ey.com


Ben-Ari Boukai
Washington DC
ben-ari.boukai@parthenon.ey.com


Jay Young
Dallas
jay.young1@parthenon.ey.com


Famke Krumbmüller
Paris
famke.krumbmuller@parthenon.ey.com


Jan Kallmorgen
Berlin
jan.kallmorgen@parthenon.ey.com


Nobuko Kobayashi
Tokyo
nobuko.kobayashi@parthenon.ey.com


Alessandro Faini
Paris
alessandro.faini@parthenon.ey.com

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