

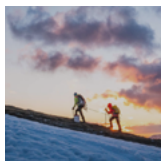
Geostrategic analysis

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

October 2024 edition



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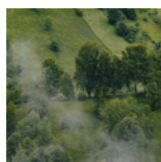
Top development:

US election increases uncertainty for business planning in 2025 and beyond



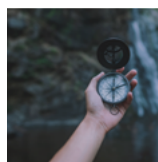
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Technology



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EY-Parthenon Geostrategic Business Group (GBG)

Translating geopolitical insights into business strategy

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Top development

US election increases uncertainty for business planning in 2025 and beyond.

What happened

The final phase of the US presidential election kicked off with the presidential debate between former President Donald Trump and Vice President Kamala Harris on 10 September, which reportedly drew more than 67 million viewers.

Campaigning is also in full swing for 34 of the 100 seats in the US Senate (upper legislative chamber) and for all 435 seats in the US House of Representatives (lower chamber). Polling shows the presidential race is very tight and that control of Congress will come down to several close races.

What's next

Key trends and policy issues that are likely to influence the voting decisions of undecided or “persuadable” voters include immigration, reproductive rights, the conflict in the Middle East and voters’ perceptions of the economy.¹ The latter will be particularly important as the US economy is in the midst of a gradual economic downshift. The trajectory of US job creation and inflation is uncertain, following the US Federal Reserve’s initial interest rate cut in September.

Polls and political analysts suggest that there are seven key swing states that will likely determine who wins the presidential election: Arizona, Georgia, Michigan, Nevada, North Carolina, Pennsylvania and Wisconsin. Many of these states were won in 2020 with small margins, and similarly small margins may determine the outcome again in 2024.

If vote margins are tight – particularly if there is a large share of early vote or absentee ballots that need to be counted – then the final election results may not be known for several days. Delays may occur because US voters do not directly elect the president. Rather, US voters in each state elect designated intermediaries called electors; the body of electors is collectively called the Electoral College, which ultimately

certifies the vote in each state. The election officially concludes when Congress counts the electoral votes on 6 January 2025. The next president is required to be inaugurated on 20 January 2025.

While attention is likely to focus on the presidential election, the outcome of the House and Senate elections will determine whether the next president will be able to rely on a Congress controlled by their own party or if they will need to build bipartisan consensus to pass legislation. If there is split control of the government, then a reliance on executive actions is likely.

Business impact

Major sectors affected include energy, industrial products and technology.

Regardless of the election outcome, US policymakers are likely to continue to embrace industrial policies and seek to promote supply chain resilience for strategic sectors (e.g., advanced manufacturing and digital technology). Executives should determine how such economic security policies and related geopolitical tensions may lead to supply chain disruptions and effects on M&A and investment opportunities.

With a majority of Tax Cuts and Jobs Act provisions scheduled to expire at the end of 2025, tax policy will be high on the agenda for the US Congress next year. There are partisan differences in tax policy priorities, but no matter who is in charge in Washington, executives should expect tax policy changes. It will be important to assess how shifting taxes could affect operational, financial and strategic planning.

Climate and environmental policy is one of the most significant areas of divergence between Harris and Trump. Another area of significant divergence is their foreign policy styles and goals. For these and other areas of likely divergence, executives should conduct scenario planning to assess the potential business implications and strategic imperatives of alternative election outcomes.

For more information, contact [Courtney Rickert McCaffrey](#), [Bridget Neill](#) and [John Hallmark](#).

Additional reading: [2024 US elections key cross-border business issues](#) | EY – Global

¹ Issues and the 2024 election | Pew Research Center <https://www.pewresearch.org/politics/2024/09/09/issues-and-the-2024-election/>



Sector in focus: Technology

India seeking a larger role in the global semiconductor supply chain amid broader diversification agenda

What happened

Since supply chain issues crippled the chip industry in 2021, governments have pledged more than US\$350 billion in incentives to build new facilities to reduce critical dependencies. Most projects, however, are planned in countries that already play a big role in the industry.

The US Department of State's International Technology Security and Innovation (ITSI) Fund aims to increase sourcing options for semiconductors globally. It is focused on strengthening the semiconductor supply chain in countries allied with the US, such as Mexico, the Philippines and Vietnam. It also recently expanded via a new partnership with India.²

What's next

India is already an established design house and is seeking the help of both foreign and domestic partners to build the ecosystem needed to claim a bigger role in manufacturing. Two major semiconductor manufacturing plants have already been announced that could start production as early as 2026. An expansion of one of these plants is already being considered as more incentives are likely to be made available.

For more information, contact [Stephan van Rhee](#) and [Swati Goenka](#).

Similar to efforts in other countries, India is proactively supporting its national chip activities through the India Semiconductor Mission.³ The Indian government has pledged up to 70% funding for the establishment of manufacturing facilities as well as fiscal support for suppliers. At the Semicon India event in September, the government and global industry leaders outlined next steps, including improving infrastructure, workforce talent and intellectual property rights.

Business impact

Chip vendors and industry suppliers interested in investing in India should conduct [political risk due diligence](#) to familiarize themselves with local legislation, industry regulation and the financial incentives landscape.

India joining ITSI – as well as other industry alliances such as SEMI and the US India Initiative on Critical and Emerging Technology (iCET) – is likely to provide electronics manufacturers in India with local, more resilient, sourcing options for its future chip needs.

Additional reading: [Top 10 Opportunities for Technology Companies in 2024 | EY – Global](#)

² New Partnership with India to Explore Semiconductor Supply Chain Opportunities - United States Department of State <https://www.state.gov/new-partnership-with-india-to-explore-semiconductor-supply-chain-opportunities/>

³ Home | India Semiconductor Mission (ism.gov.in) <https://ism.gov.in/>

3 Other issues we are watching

Mexico's reforms, BRICS Summit, and Japan's foreign policy

Mexico's reforms affect the climate for investors

Newly inaugurated President Claudia Sheinbaum of Mexico will be tasked with addressing both global and local economic challenges, as well as capitalizing on the geopolitical opportunity of attracting nearshoring investments to the country. She also will oversee the implementation of last-minute reforms by the previous president, which included a new judiciary reform targeting corruption eradication and increased accountability to the people. Many observers, including some policymakers in Washington, have expressed concerns about both the judicial reforms, indicating the reforms may impact the 2026 review of the US-Mexico-Canada (USMCA) agreement.⁴

Business impact: Companies manufacturing in or sourcing from Mexico will need to monitor the implementation of the reforms to understand changes to the business environment and potential risks. Executives should consider bolstering [regulatory compliance](#) activities, as well as building political protections into legal agreements in the country. Companies considering entering into or expanding in Mexico should [prepare for various scenarios](#) related to domestic policy outcomes and the future provisions of the USMCA.

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

BRICS Summit likely to highlight investment opportunities

The BRICS summit is scheduled to be held on 22 October in Kazan, Russia, where attendees will likely position the group as a key development and global governance initiative for BRICS members and the "Global South" more broadly. This follows the recent Forum on China-Africa Cooperation (FOCAC) in Beijing, where Chinese President Xi Jinping announced new "partnership actions" with African countries, including trade, industrial supply chain, connectivity, health, agriculture and security.

Business impact: The immediate focus of the BRICS likely includes new and expanded trade and investment relationships. It is probable that there will be cross-BRICS investment and trade opportunities for companies operating in those markets, especially in areas of higher strategic importance to China, such as expanding export markets for

[electric vehicles, consumer electronics and AI](#), or securing access to [raw materials](#). As part of this strategy, further enlargement of the BRICS club is also likely – for instance, Turkey has formally applied for membership – which would expand the geographic reach of these business opportunities.

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

Japan's new prime minister signals foreign policy continuity

Shigeru Ishiba's was elected as the leader of the Liberal Democratic Party (LDP) and therefore the Prime Minister in late September, and called a snap election for 27 October to secure a popular mandate as well. Ishiba will continue the foreign policy approach of his predecessor Fumio Kishida. Reinforcing its defense capabilities,⁵ strengthening relations with allies and partners (particularly the United States) and addressing the shortfall⁶ in its armed forces will be key priorities of the new administration. Under Ishiba, Japan will continue to coordinate with the US and the Netherlands on advanced semiconductor export control regulations.

Business impact: The policy focus on defense capabilities may create more growth and investment opportunities for aerospace and defense companies. Japanese technology and open-source software producers will continue to face restrictions on exports to the Chinese mainland. The election will have little impact on the Bank of Japan's (BoJ) rate hiking cycle, although if the interest rate differential with the US continues to narrow, a stronger yen may weigh on Japanese exporters. Japanese corporates should continue to invest in [geostrategic capabilities](#), including the establishment of economic security departments – following the nearly four in 10 Japanese companies that have established such departments in recent years.⁷

For more information, contact [Nobuko Kobayashi](#) and [Kyle Lawless](#)

⁴ U.S.-Mexico-Canada (USMCA) Trade Agreement (congress.gov) <https://crsreports.congress.gov/product/pdf/IF/IF10997>

⁵ 2024 Defense of Japan (mod.go.jp) https://www.mod.go.jp/j/press/wp/wp2024/pdf/DOJ2024_Digest_EN.pdf

⁶ Japan Self-Defense Forces miss recruitment goal by half - Nikkei Asia <https://asia.nikkei.com/Politics/Defense/Japan-Self-Defense-Forces-miss-recruitment-goal-by-half>

⁷ Japanese firms seek political stability and stronger alliance: survey - IOG Survey Results of 100 Japanese Companies on Economic Security - by Hitoshi Suzuki - Asia Pacific Initiative アジア・パシフィック・イニシアティブ (apininitiative.org) <https://apininitiative.org/en/2024/02/01/55497/>

4 Geostrategic indicator of the month

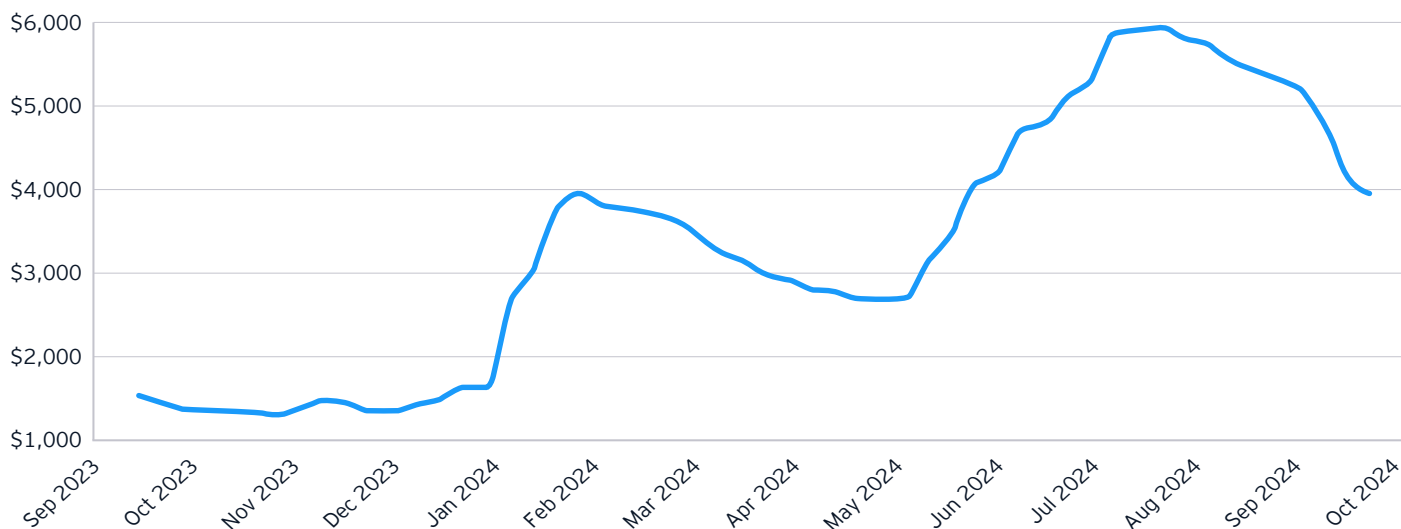
Global shipping costs trends due to geopolitical risks

The indicator:

Shipping rates in September 2024 were more than 160% higher than a year prior, driven partly by geopolitical tensions. Militant attacks and heightened tensions near the world's busiest maritime chokepoints, including Houthi attacks on ships in and near the Red Sea, have necessitated the rerouting of shipping vessels to longer and safer alternative paths.⁸ Shipping rates have declined significantly since hitting post-pandemic high of about US\$5,900 per container in June. Further political risk-generated disruption to ocean-based transportation is possible, though, most notably via the strike by the International Longshoremen's Association at US East Coast and Gulf Coast ports.

Global shipping costs are falling from their peak, but remain elevated due to geopolitical risks

World Container Index (US\$/40ft)



Source: Drewry Supply Chain Advisors⁹

Business impact:

Elevated shipping rates increase operating costs for companies reliant on maritime transit routes – costs which may be passed along to their customers, and thus create inflationary impacts. As discussed in the [EY 2024 Geostrategic Outlook](#), any major conflicts could affect both shippers and carriers due to the risk of delays and loss or damage to cargo and ships. Executives should establish contingency strategies to mitigate risks and limit cost increases, which should inform ongoing strategies for de-risking supply chains through consideration of more regionally based approaches.

Additional reading: [Top 10 geopolitical risks for 2024 | EY – Global](#)

⁸ Yemen's Houthis claim attacks on four vessels in Red Sea and Mediterranean | Reuters <https://www.reuters.com/world/middle-east/ukmto-ships-captain-reports-five-missiles-landed-nearby-red-sea-2024-06-28/>

⁹ Drewry Supply Chain Advisors <https://www.drewry.co.uk/supply-chain-advisors/supply-chain-expertise/world-container-index-assessed-by-drewry>

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