

A photograph of two mountaineers on a rocky mountain peak. The climber on the left is wearing a blue jacket, a yellow helmet, and is holding a coiled orange rope. The climber on the right is wearing a yellow and blue jacket, a white helmet, and is reaching out with her hand towards the rope. The background shows a vast, green valley with a river winding through it.

Geostrategic analysis

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

April 2023 edition

The EY logo, consisting of the letters 'EY' in a bold, white, sans-serif font, positioned above a yellow chevron shape pointing to the right.

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Table of contents

Top development: Access to critical minerals will continue to be central to green industrial policies.

Sector in focus: Technology, media and telecommunications: Forthcoming EU regulation will alter how artificial intelligence (AI) is developed and used.

Other issues we are watching: Iranian-Saudi détente, South Korea-Japan rapprochement, South Africa's geopolitical neutrality

Geostrategic indicator of the month: The Black Sea Grain Initiative

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Translating geopolitical insights into business strategy

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1

Top development

Access to critical minerals will continue to be central to green industrial policies.

What happened

On 16 March, the European Commission proposed new measures to reduce external dependencies for critical materials by promoting domestic mining, diversifying suppliers and replacing some imports with materials available at home, and building sustainable minerals trade partnerships with like-minded countries.¹ The US, Japan, India and others have similar policies to secure the supply of green minerals, which are key to energy transition plans.

There have been significant recent discoveries of critical mineral deposits in Iran, India, Norway and Sweden. But rising protectionism in resource-rich countries increases the uncertainty of global supplies. For example, Zimbabwe recently banned exports of any unprocessed base minerals (including lithium and nickel), while Mexico nationalized domestic lithium mining.

What's next

The EU and US will cooperate to try and build sustainable, secure global supply chains of strategic minerals with like-minded partners and developing countries. The US-led Minerals Security Partnership and the EU's Critical Raw Materials Club are likely to be the primary means by which investments and export deals are arranged.²

Western developed markets with significant mineral resources – mainly Australia and Canada – will continue to increase scrutiny over foreign investments in green minerals. Chinese companies will therefore likely intensify extraction activities in South America and Africa.

Higher demand forecasts and governments' focus on securing access to green minerals will likely lead to more discoveries of mineral deposits in countries around the world. However, supplies from the new mining sites will take years to come online and will depend on each country's overall capacity to refine and process raw materials, as well as on the industry's technological advances. Although green minerals are critical for a low-carbon transition, extracting them could involve significant environmental degradation and challenges to the social license to operate. Mining activities will remain vulnerable to opposition from environmental groups and local communities.

For more information, contact
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Some resource-rich developing countries will continue implementing measures to retain control of strategic minerals and develop downstream industries at home. Starting in June, Indonesia plans to ban exports of raw bauxite. And a group of Latin American countries representing 65% of global lithium reserves is considering the formation of an Organization of the Petroleum Exporting Countries (OPEC)-style lithium organization to develop processing capacity and sustainable mining practices, and coordinate production flows and pricing.³

Business impact

Major sectors affected include energy and resources, advanced manufacturing and mobility, and government and infrastructure.

Mining companies are likely to face efforts to limit foreign ownership in green minerals, as well as windfall or profits taxes or higher duties and excise rates. They may face expropriation risks in some markets. However, miners could benefit from [supportive industrial policies](#) at home and friendshoring incentives to operate in certain geographies.

Mining companies could also experience [higher operational challenges](#) due to labor strikes, illegal mining, increased social activism or broader political instability. Such challenges are more likely in countries with high levels of inequality or a history of such activities in the mining sector, as well as newer entrants to the sector, such as developed markets with stricter environmental standards.

The global growth in renewable-energy capacity and electric vehicle (EV) adoption, as well as infrastructure investments to accelerate the transition to electrification, will significantly increase demand for green minerals. Companies in related manufacturing sectors could face higher raw material [costs](#) – and possibly the inability to secure sufficient green mineral supplies in the short to medium term.

Industrial and energy companies are likely to benefit from faster permitting and greater access to financing to develop innovative solutions and technologies to extract and recycle green minerals from end-of-life appliances and electronics, as well as from the mining waste of other minerals.

Additional reading:
[Top mining and metals risks and opportunities in 2023](#)

¹ Eg. EU unveils Critical Raw Materials Act, aiming to lessen dependence on China – EURACTIV.com, 16 March 2023. <https://unctad.org/a-trade-hope-2>

² Minerals Security Partnership - Policies - IEA, 27 October 2022. <https://www.iea.org/policies/16066-minerals-security-partnership>

³ South America looks at creating "lithium OPEC" – MINING.com, 6 March 2023. <https://www.mining.com/south-america-looks-at-creating-lithium-ope/>



Sector in focus: Technology, media and telecommunications

Forthcoming EU regulation will alter how artificial intelligence (AI) is developed and used.

What happened

After two years of negotiations, the EU AI Act is moving into the final legislative phase with broad agreement to impose [compliance requirements](#) on designated high-risk applications of AI.⁴

In response to recent developments in “general purpose AI” (GPAI) systems, such as ChatGPT and GPT-4, at least some of the high-risk requirements under the AI Act could apply to GPAI.

What's next

As the first significant legislation on AI that is planned to be implemented in a major market, the EU AI Act has the potential to repeat the “[Brussels effect](#)” in terms of global impact that the GDPR has had on data privacy regulations.

With growing concerns over the potential societal impact of GPAI systems, there will likely be increasing demand for greater scrutiny of AI systems ahead of their market release.

Business impact

AI companies are likely to face both stricter regulation and a high-growth environment, leading to a segmentation of the AI technology space with many smaller providers focusing on non-high-risk applications while others specialize on high-risk uses.

Companies across all sectors developing or using AI will need to maintain a comprehensive inventory of their AI applications to identify high-risk AI uses and ensure appropriate [risk management and compliance procedures](#) are in place.

For more information, contact [Ansgar Koene](#) and [Douglas Bell](#).

Additional reading: [Why successful adoption of AI will build on a foundation of trust](#)

⁴ The European Union's Artificial Intelligence Act, Explained- World Economic Forum, 28 March 2023. <https://www.weforum.org/agenda/2023/03/the-european-union-s-ai-act-explained/>

Other issues we are watching

Iranian-Saudi détente, South Korea-Japan rapprochement, South Africa's geopolitical neutrality

Iranian-Saudi détente will improve regional operating environment

In March, Tehran and Riyadh announced a deal to restore diplomatic relations, offering a potential path toward curbing the war in Yemen and other regional tensions.⁵ The Chinese-brokered rapprochement marks a marquee moment in Beijing's ability and willingness to extend diplomatic leverage beyond the Indo-Pacific, furthering its Global Security Initiative.⁶ The US responded with cautious optimism,⁷ while it remains to be seen whether comments by some observers of a reduced US regional security role are premature.⁸

The agreement adds stability to the regional operating environment. This includes a lower risk of disruptions to global oil and gas flows, which could support [value creation](#) in the energy sector. It may also further expand regional [M&A opportunities](#). Still, corporate strategy leaders should take a cautious approach in [assessing market opportunities](#) as the deal's long-term viability will only be proven as future crises emerge.

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

South Korea-Japan rapprochement could create business opportunities

March meetings between South Korea President Yoon Suk Yeol and Japan Prime Minister Fumio Kishida signal a thawing of historically fraught bilateral relations.⁹ Cooperation between the two countries is expected to strengthen the Western-allied position in Asia vis-à-vis mutual concerns regarding China and North Korea. The rapprochement extends to the economic sphere as well, including Japan's removal of technology export restrictions to South Korea.

Trade and economic dividends are expected to result from improved relations between the second and fourth-largest economies in Asia. Semiconductor-related and advanced manufacturing industries are expected to benefit from the opening of high-end technology goods trade between the countries. Broader opportunities for tourism, education and clean-energy industries are expected to materialize amid anticipated cooperation around shared issues such as climate change.

For more information, contact [Adam Barbina](#).

South Africa's geopolitical neutrality comes under scrutiny

South Africa maintains quiet diplomacy on the war in Ukraine. But the South African government has recently come under the microscope at home and abroad owing to joint military exercises with the Chinese and Russian Federation navies off the east coast of the country in February.¹⁰ In response, the US Congress has called on the Biden administration to review US-South Africa relations.¹¹

Any shift in South Africa's neutrality may have implications for international relations and trade. The US is among the country's largest merchandise trade partners, with robust business ties.¹² If South Africa moves closer to China and Russia, it risks its reputation with the US and the EU, which may raise tariffs, limit market access and reduce investments. However, maintaining strong ties with China - its single largest trading partner - would support South Africa's commodities exporters.

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

⁵ Iran and Saudi Arabia agree to resume ties in talks brokered by China - Reuters, 10 March 2023. <https://www.reuters.com/world/middle-east/iran-saudi-arabia-agree-resume-ties-re-open-embassies-iranian-state-media-2023-03-10/>

⁶ The Global Security Initiative Concept Paper - Ministry of Foreign Affairs of the People's Republic of China, 21 February 2023. https://www.fmprc.gov.cn/mfa_eng/wjbxw/202302/t20230221_11028348.html

⁷ US Secretary of State Anthony Blinken at a Press Availability - 15 March 2023. <https://www.state.gov/secretary-antony-j-blinken-at-a-press-availability-31/>

⁸ A New Order in the Middle East? - Foreign Affairs, 22 March 2023. <https://www.foreignaffairs.com/china/iran-saudi-arabia-middle-east-relations>

⁹ Japan, South Korea renew ties at Tokyo summit - AP News, 17 March 2023. <https://apnews.com/article/japan-south-korea-summit-yoon-kishida-b325f9fca4261e97953d05b963fd62c>

¹⁰ Pandor defends decision for joint military exercise with Russia and China - SABC News, 23 January 2023. <https://www.sabcnews.com/sabcnews/pandor-defends-decision-for-joint-military-exercise-with-russia-and-china/>

¹¹ Text - H.Res.145 - 118th Congress (2023-2024): Opposing the Republic of South Africa's hosting of military exercises with the People's Republic of China and the Russian Federation, and calling on the Biden administration to conduct a thorough review of the United States-South Africa relationship- Library of Congress, 21 February 2023. <https://www.congress.gov/bills/118th-congress/house-resolution/145/text?format=txt&r=50&s=1>

¹² Trade Statistics - South African Revenue Service, accessed 21 March 2023. <https://www.sars.gov.za/customs-and-excise/trade-statistics/>

4 Geostrategic indicator of the month

The Black Sea Grain Initiative

The Black Sea Grain Initiative has unlocked critical Ukrainian grain exports for global food supplies

Exports of corn, wheat and barley from Ukraine (million tonnes)



Source: United Nations Conference on Trade and Development

The indicator

Ukraine is one of the world's major grain producers, but Ukrainian grain exports dropped by more than 40% in the months after the beginning of the war in 2022. Since the Black Sea Grain Initiative (BSGI) was signed in July, it has enabled almost 23 million metric tonnes of grains to be able to reach global markets.¹³ On 18 March, the BSGI was renewed for another 60 days, but its uncertain future highlights that risks to stable supplies are likely to persist.

Business impact

Ukraine's grain exports remain below pre-war levels, which is likely to continue to create supply challenges and input price increases across the agribusiness and food value chain. Food inflation and food insecurity will likely continue to elevate the risk of political instability in markets around the world, particularly those reliant on Ukrainian agricultural exports. Companies operating in countries hardest hit by food inflation should monitor social unrest that could bring about more operational challenges.

Additional reading: [Why food security must be a central consideration in climate action](#)

¹³ United Nations Conference on Trade and Development, March 2023. <https://unctad.org/a-trade-hope-2>

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EYG no. 004107-23GbI

2303-4206443
ED None

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