

A photograph of two hikers standing on a jagged, light-colored rock peak. The hiker on the left is wearing an orange jacket and a backpack, while the hiker on the right is wearing a blue jacket and a backpack. They are holding hands, suggesting a moment of teamwork or assistance. The background is a clear blue sky with a bright sun low on the horizon, creating a silhouette effect on the hikers. The overall scene conveys a sense of challenge and achievement.

Geostrategic analysis

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

May 2023 edition

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. Above the 'Y' is a yellow chevron shape pointing to the right. The logo is positioned in the bottom right corner of the page, partially overlapping the rocky background.

EY

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Top development

Heightened levels of social unrest pose risks to business operations and growth.

What happened

Incidents of political, social, and industrial unrest have become more prevalent, with the Carnegie Endowment for International Peace recording more than 50 incidents of political and social unrest already in 2023.¹

The issues sparking this unrest are wide-ranging, including raising the retirement age in France; unemployment and alleged corruption in South Africa²; a proposed judicial restructuring in Israel³; and inflation-generated wage disputes in the UK, US, Australia and elsewhere.

There is no one single cause of this wave of strikes and protests, but much of it seems to be driven by economic concerns stemming from three transnational crises: the 2008–2009 global financial crisis, the COVID-19 pandemic and the war in Ukraine.

What's next

With the International Monetary Fund (IMF) predicting that core inflation has not yet peaked in many countries, a continuation of economically motivated unrest can be expected in the coming months.⁴ The rise in the cost of living will likely continue to drive public sector strikes in Europe, which have already dragged on economic activity and could derail Europe's economic recovery.⁵

Social unrest in response to unpopular policy reform proposals – as seen recently in Israel and France – is also likely to continue. Such protests are most likely to occur in countries in which governments have ambitious agendas or where citizens feel protest is the most effective way to express their discontent.

For more information, contact
Barry Perkins and Courtney Rickert McCaffrey.

Upcoming elections (such as in Turkey, Pakistan and Argentina) and environmental concerns surrounding critical mineral projects in resource-rich countries could also contribute to the current wave of social unrest.

While there are no easy fixes, governments are acknowledging the need to respond. More populist measures may be considered to quell protestors' demands.

Business impact

Major sectors affected include government and public sector, transportation and mining.

Social unrest can have a negative impact on business operations in the immediate term. For instance, analysis by the UK Office of National Statistics found approximately 12% of UK businesses were directly or indirectly affected by industrial action, and 30% of those businesses reported they were unable to fully operate.⁶ To manage potential disruptions, executives should monitor early warning indicators of potential unrest in key markets.

Transportation and logistics hubs are easily disrupted by labor issues, which can create ripple effects through global supply chains.⁷ This could create new supply disruptions and additional cost increases for a variety of companies, reinforcing the push for more resilient, "just-in-case" [supply chain strategies](#).

Companies across sectors could face increased stakeholder pressure to more actively address the causes of social unrest, including the more-equal sharing of profits in society. And as policymakers seek to balance the need to control inflation, stimulate growth and potentially increase spending to address societal demands, companies could face higher tax rates as well.⁸

Additional reading: [How can boards strengthen governance to accelerate their ESG journeys?](#)

¹ Global Protest Tracker - Carnegie Endowment for International Peace. <https://carnegieendowment.org/publications/interactive/protest-tracker>

² What's driving Africa's demonstrations? - Deutsche Welle (dw.com), 04/06/2023. <https://www.dw.com/en/whats-driving-africas-waves-of-protests/a-65251730>

³ Judicial reform protests for 15th straight week, hundreds of thousands of Israelis demonstrate across the country - All Israel News. <https://allisrael.com/judicial-reforms-protests-for-15th-straight-week-hundreds-of-thousands-of-israelis-demonstrate-across-the-country>

⁴ Global Economic Recovery Endures but the Road Is Getting Rocky - International Monetary Fund. <https://www.imf.org/en/Blogs/Articles/2023/04/11/global-economic-recovery-endures-but-the-road-is-getting-rocky>

⁵ France Protests and Strikes Are Slowing Recovery From Europe's Energy Crisis - Bloomberg.

<https://www.bloomberg.com/news/articles/2023-04-14/french-strikes-are-slowing-recovery-from-europe-s-energy-crisis#xj4y7vzkq>

⁶ Business insights and impact on the UK economy - Office for National Statistics (ons.gov.uk). <https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/bulletins/businessinsightsandimpactontheukeconomy/6april2023>

⁷ Europe's strikes threaten supply chain delays - Lloyd's List (informa.com). <https://lloydslist.maritimeintelligence.informa.com/LL1144481/Europes-strikes-threaten-supply-chain-delays>

⁸ Fiscal Policy Can Promote Economic Stability and Address Risks to Public Finances - International Monetary Fund (imf.org). <https://www.imf.org/en/Blogs/Articles/2023/04/12/fiscal-policy-can-promote-economic-stability-and-address-risks-to-public-finances>



Sector in focus: Technology, media and telecommunications

Growing export restrictions will accelerate decoupling of the advanced semiconductor industry.

What happened

Following US export controls on high-performance semiconductors to China in October 2022, Japan and the Netherlands have formally agreed to implement their own controls to restrict China's access to advanced chip manufacturing equipment.⁹

These decisions strengthen US-led efforts to limit China's industrial capabilities for chip technologies required for advanced civil and military applications.

What's next

Additional US and EU efforts to curtail technology investments in China through outbound screening mechanisms are expected to drive a further decoupling of high-end chip technologies, although less advanced chips appear to remain largely outside the current restrictions.¹⁰

In a likely response, Beijing has initiated a national security review of a US chip manufacturer and is considering export restrictions in strategic products in which China has a competitive advantage, including green technologies and their components (e.g., solar wafers and rare earth minerals) and biotechnology.¹¹

Business impact

Companies across sectors that are dependent on chips or related strategic technologies should evaluate their [supplier strategies](#) and relationships to manage potential shifts in supply chains driven by either Western or Chinese restrictions. Distortions to segments in the global market in semiconductors may also start to appear as barriers are put in place.

Technology companies as well as those in other sectors should also prepare for increased scrutiny of technology trade and investment, including more robust compliance, governance and [political risk management](#) capabilities.

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

Additional reading: [How do you stay on course when the direction keeps changing?](#)

⁹ Japan and the Netherlands Announce Plans for New Export Controls on Semiconductor Equipment - Center for Strategic and International Studies (csis.org). <https://www.csis.org/analysis/japan-and-netherlands-announce-plans-new-export-controls-semiconductor-equipment>

¹⁰ Running on Ice: China's Chipmakers in a Post-October 7 World - Rhodium Group (rhg.com). <https://rhg.com/research/running-on-ice/>

¹¹ China Proposed Changes to the "Catalogue of Technologies Prohibited and Restricted from Export" - Perspectives & Events, Mayer Brown. <https://www.mayerbrown.com/en/perspectives-events/publications/2023/02/china-proposed-changes-to-the-catalogue-of-technologies-prohibited-and-restricted-from-export>

3 Other issues we are watching

ASEAN leaders will seek regional integration, Chinese investment in Brazil, Modi's diplomatic calendar

ASEAN leaders will seek regional integration amid geopolitical neutrality

From 9 to 11 May, leaders of the Association of Southeast Asian Nations (ASEAN) member countries - and first-time observer Timor-Leste - met in Indonesia to reiterate commitments to economic cooperation.¹² Notably, this included an agreement to develop a regional electric vehicle (EV) ecosystem. And it reinforced the ASEAN finance ministers and central bank governors' agreement to boost the use of Local Currency Settlement (LCS) and bilateral currency swap arrangements in an effort to reduce dependence on traditional reserve currencies. As the 2023 ASEAN chair, Jakarta continued to promote ASEAN's geopolitical non-alignment amid heightened US-China tensions.

ASEAN's focus on deepening trade agreements and spurring regional regulatory and payment integration will present new growth opportunities for companies looking to [access critical minerals](#) and [diversify regional operations](#). However, development of a regional EV manufacturing hub will likely be slow due to cross-country policy variation and infrastructure deficits. And the continued domestic instability in Myanmar - the world's fourth-largest producer of rare earths - may exacerbate political risks in the region.¹³

For more information, contact [Alessandro Faini](#).

Lula-Xi meetings will produce more Chinese investment in Brazil

While in Beijing, Brazilian President Luiz Inácio Lula da Silva (commonly known as "Lula") reiterated his determination to push for a more multipolar world, with less reliance on the US dollar and a greater political role for the Global South. Despite the rhetorical alignment and increased trade with Beijing, Lula's statements reflect the growing [geopolitical assertiveness](#) of "middle powers" and a desire to avoid overdependence on any one country.

The 15 bilateral agreements announced at the mid-April meetings in Beijing covered agribusiness, trade facilitation and technology. The deals may total US\$50 billion in new Chinese investment for Brazil, reinforcing China's role as Brazil's largest trading partner. Lula's government is also seeking investment for infrastructure, technology and manufacturing modernization from other sources, including the US and the EU, providing potential [business opportunities](#) for companies from around the world.

For more information, contact [Jay T. Young](#).

Modi's diplomatic calendar reflects orientation toward the "West" and Pacific

Indian Prime Minister Narendra Modi will further strengthen India's geostrategic position through a series of diplomatic summits in May. By attending the G7 Summit and the Quadrilateral Security Dialogue (Quad), he will strengthen both political and security ties with Western-aligned countries. In addition, Modi's presence at the Forum for India-Pacific Islands Cooperation Summit will further bolster partnerships in this strategic region.

These summits will likely further position India toward Western-aligned countries, as New Delhi seeks to reduce dependency on China, and develop deeper political and economic relations in the Pacific to position India as an economic alternative to China. India will also continue to promote its [information technology sector](#) using its relationships with both the West and the Pacific, as well as leverage its large population in the global services industry.

For more information, contact [Kyle Madura](#) and [Douglas Bell](#).

¹² Member States - ASEAN Main Portal. <https://asean.org/member-states/>

¹³ Myanmar tests Indonesia's resolve as ASEAN fissures deepen - Nikkei Asia. <https://asia.nikkei.com/Spotlight/Asia-Insight/Myanmar-tests-Indonesia-s-resolve-as-ASEAN-fissures-deepen>

4 Geostrategic indicator of the month

The indicator

Global reserve currencies are held in large quantities by central banks and other major financial institutions for international transactions and debt obligations, or to influence their domestic exchange rate. The US dollar (USD) has been the global reserve currency since the mid-20th century, but its share of global foreign exchange reserves has declined from 71% in 1999 to 54% in 2022.¹⁵ Recently, several countries, especially China, have made efforts to promote the use of their currencies internationally. There is also broad discontent with the way the US government has used the USD-based global financial system to enforce its sanctions regime.

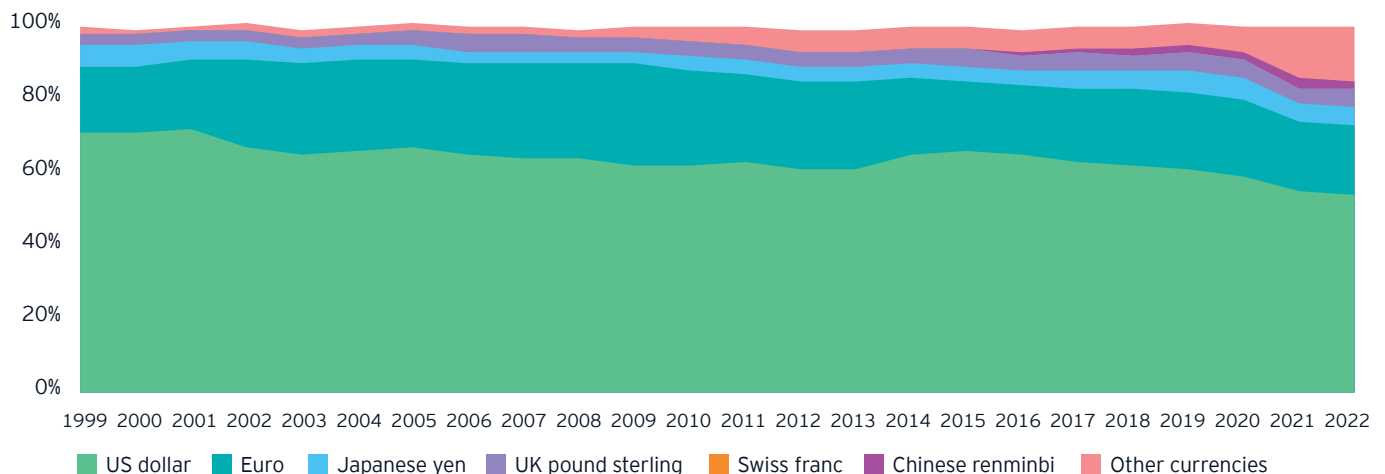
Business impact

Despite recent developments and the ongoing debt ceiling debate, the USD is unlikely to be dethroned as the world's primary reserve currency and currency of choice for capital movements. However, it will likely continue to decline as a share of international transactions for traded goods.¹⁶ With some movement away from the USD, businesses will likely face more complexity across certain trade transactions and trade finance. The changing role of the dollar could also potentially lead to higher risks associated with foreign exchange rate volatility.

Additional reading: [How to shift strategy for a new geostrategic era](#)

The US dollar remains the dominant reserve currency, although diversification to other currencies has accelerated

Share of global foreign exchange reserves by currency



Source: International Monetary Fund, Currency Composition of Official Foreign Exchange Reserves,¹⁴
Note: This data does not include unallocated currencies.

¹⁴ Currency Composition of Official Foreign Exchange Reserves - International Monetary Fund (imf.org). <https://data.imf.org/?sk=E6A5F467-C14B-4AA8-9F6D-5A09EC4E62A4>

¹⁵ US Dollar Share of Global Foreign Exchange Reserves Drops to 25-Year Low - International Monetary Fund (imf.org). <https://www.imf.org/en/Blogs/Articles/2021/05/05/blog-us-dollar-share-of-global-foreign-exchange-reserves-drops-to-25-year-low>

¹⁶ Glaciers of Global Finance: The Currency Composition of Central Banks' Reserve Holdings - International Monetary Fund (imf.org). <https://www.imf.org/en/Blogs/Articles/2020/12/16/blog120620-glaciers-of-global-finance>

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