

A photograph of two hikers on a rocky mountain peak. One hiker is on the left, wearing an orange jacket and a backpack, reaching out to assist the other hiker. The second hiker is on the right, wearing a blue jacket and a backpack, standing on the edge of the rock. The background is a clear blue sky with a bright sun creating a lens flare effect. The overall scene is one of teamwork and achievement in a challenging environment.

# Geostrategic analysis

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

**October 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.

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# 1 Top development

Summits highlight shifts in multilateralism and the potential for increased international financing.

## What happened

The primary outcome of the BRICS summit<sup>1</sup> in August was to [expand membership](#) to six new countries: Saudi Arabia, Argentina, Egypt, Ethiopia, Iran and the UAE. Similarly, one of the key outcomes of the G20 leaders' summit<sup>2</sup> in September was the African Union (AU) becoming a permanent member of the G20.

The G20 leaders' declaration also reflected concerns of the so-called Global South, including emphasizing the need to address global food insecurity, highlighting the importance of climate change and sustainable finance and affirming territorial integrity and sovereignty (without explicitly citing Russia's actions in Ukraine).

The United Nations (UN) General Assembly later in September included a similar focus on international financing for the Sustainable Development Goals (SDGs) and other global priorities. However, US President Joe Biden was the only leader of a UN Security Council permanent member to attend the General Assembly opening this year, which called into question the UN's relevance as a multilateral forum in the current environment.

## What's next

The willingness of EU countries and the US to tone down the language regarding the war in Ukraine in the G20 leaders' declaration reflects the growing geopolitical power of the Global South. This more even distribution of power can also be seen in the ever-expanding agenda of the G20 leaders' summits - with the first Declaration in 2008 containing only 3,540 words compared to about 14,400 in 2023.

The G20's agenda is likely to continue to expand as the number and significance of transnational challenges continues to rise, and the G20 is seen as the leading international forum for addressing such issues given the institutional challenges of making progress in larger multilateral organizations (e.g., the UN and the World Trade Organization).

Developed markets will nevertheless continue to try to elevate the role of traditional multilateral institutions, partly to counter the rise of alternative China-led institutions in addressing the issues of most relevance to emerging and frontier market governments. The US will lead the charge to expand funding for the World Bank.<sup>3</sup> And governance reform to expand the voting rights of developing countries at the World Bank and the International Monetary Fund (IMF) is likely to rebound to renewed prominence on the international agenda.<sup>4</sup>

Additional members expanding the financial power of the BRICS's New Development Bank (NDB), G20 support for expanded World Bank funding and the newly announced India-Middle East-Europe Economic Corridor suggest that emerging market and developing countries may have access to greater financing for development projects in the coming years.<sup>5</sup> Many analysts expect the upcoming 2023 United Nations Climate Change Conference or Conference of the Parties of the UNFCCC (commonly referred to as COP28) to similarly focus on greater financing for the Loss and Damage Fund (established at COP27) and renewable energy technologies.<sup>6</sup>

The membership expansions in both the BRICS and the G20 will increase the geopolitical and economic leverage of the Middle East and Africa, respectively, in those institutions. These developments reflect these regions' crucial roles in the ongoing global energy transition, in terms of oil and gas as bridge fuels and of critical minerals for high-capacity batteries.

## Business impact

Major sectors affected include energy, infrastructure, construction and government.

The emergence of "real" multilateralism is likely to reinforce existing trends regarding economic diversification and supply chain resiliency. Geopolitical swing states such as India, Vietnam, the UAE and Turkey are likely to play larger roles in global supply chains. Executives should explore the market and investment opportunities introduced by these geopolitical shifts, taking into account potential reputational and compliance risks associated with their home market government's policies.

The planned increase in funding by international lenders is likely to create opportunities in the commodities, energy, infrastructure and construction sectors throughout emerging and frontier markets. Such investment opportunities may be most robust in the Middle East, Africa and parts of Asia in the near term. Government policymakers and business executives should monitor these developments and seek to capitalize on funding opportunities for economic development or energy transition projects.

As multilateralism shifts in an era of heightened geopolitical tensions, this could create difficulties in global policy coordination, elevating the uncertainty and severity of any future transnational crises. This could, in turn, have negative implications for business revenue and growth opportunities in markets around the world.

For more information, contact [Courtney Rickert McCaffrey](#).

Additional reading:

[How to shift strategy for a new geostrategic era in 2023](#)

<sup>1</sup>BRICS Johannesburg II Declaration | [brics2023.gov.za](https://brics2023.gov.za) <https://brics2023.gov.za/wp-content/uploads/2023/08/Jhb-II-Declaration-24-August-2023-1.pdf>


<sup>2</sup>G20 New Delhi Leaders' Declaration Final Adoption | [G20.org](https://www.g20.org) [https://www.g20.org/content/dam/gtwenty/gtwenty\\_new/document/G20-New-Delhi-Leaders-Declaration.pdf](https://www.g20.org/content/dam/gtwenty/gtwenty_new/document/G20-New-Delhi-Leaders-Declaration.pdf)

<sup>3</sup>FACT SHEET: Delivering a Better, Bigger, More Effective World Bank | The White House <https://www.whitehouse.gov/briefing-room/statements-releases/2023/09/09/fact-sheet-delivering-a-better-bigger-more-effective-world-bank/>

<sup>4</sup>IMF Quotas | [imf.org](https://www.imf.org) <https://www.imf.org/en/About/Factsheets/Sheets/2022/IMF-Quotas>

<sup>5</sup>Partnership for Global Infrastructure and Investment (PGII) & India-Middle East-Europe Economic Corridor (IMEC) | India Ministry for External Affairs <https://mea.gov.in/press-releases.htm?dti/37091/Partnership-for-Global-Infrastructure-and-Investment-PGII--India-Middle-East-Europe-Economic-Corridor-IMEC>

<sup>6</sup>COP28 and IEA convene first high-level dialogue on building a 1.5°C-aligned energy transition | International Energy Agency <https://www.iea.org/news/cop28-and-iea-convene-first-high-level-dialogue-on-building-a-1-5-c-aligned-energy-transition>



# Sector in focus: manufacturing and energy

EU Carbon Border Adjustment Mechanism enters its transitional phase with an uncertain future.

## What happened

On 1 October, the EU's Carbon Border Adjustment Mechanism (CBAM) began being phased in, with a full entry into force scheduled for 2026.<sup>7</sup> CBAM aims to reduce the risk of "carbon leakage" by taxing certain carbon-intensive imports from outside of the EU.

The introduction of CBAM comes at a time when several EU member states, including Germany, Italy and Austria, are backtracking on previously agreed green initiatives, such as the 2035 combustion engine ban.<sup>8</sup>

Poland has legally challenged several soon-to-be-implemented EU green regulations, such as binding annual emission targets, as too burdensome and has also requested the annulment of CBAM.<sup>9</sup>

## What's next

Poland's demands, though unlikely to be successful, reflect the increasing worry about the EU's green ambitions negatively affecting the competitiveness of EU economies. The green agenda will increasingly be challenged as policymakers seek to appeal to the concerns of some households and industries ahead of the European Parliament elections in May 2024.

The EU will continue to work with G7 countries, including the US and Canada, to advance a global carbon-pricing framework to avoid CBAM-related trade tensions. Other countries, such as the UK and Switzerland, may introduce similar measures. But some EU trading partners, including China, India and Indonesia, will likely continue to oppose the CBAM as a "border tax" and may introduce trade countermeasures such as similar carbon levies and other tariffs on EU imports.<sup>10, 11, 12</sup>

## Business impact

Companies and investment firms should monitor outbound investment policies in the US, and plans in the UK and the EU, and develop greater [political risk management](#) and compliance capabilities to both influence and comply with final requirements.

Private-equity and venture capital funds, in addition to companies seeking joint ventures or other investments, will fall under increasing scrutiny by US authorities in relation to investments in China and should evaluate their portfolio investments and allocations in light of the regulatory, geopolitical and macroeconomic environments. The transitional phase of CBAM introduces [reporting obligations](#) for the energy and manufacturing sectors, specifically EU-based importers of cement, iron and steel, aluminum, fertilizers, electricity and hydrogen. Although no tariffs will be implemented yet, these reporting requirements will require greater supply chain transparency and could increase compliance costs.

Starting from 2026, these sectors - and potentially more covered by the Emissions Trading System (ETS), including chemical and paper a- are set to incur an estimated 20% to 35% tariffs on designated imports. However, companies with exposure to the EU will likely face continued uncertainty about CBAM's implementation due to both internal and external resistance.<sup>13</sup>

For more information, contact [Famke Krumbmüller](#).

Additional reading: [How Europe's post-COVID-19 economy and environment can both prosper | EY – Global](#)

<sup>7</sup>Carbon Border Adjustment Mechanism | European Commission [https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism\\_en](https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism_en)

<sup>8</sup>Slovakia joins 'anti-combustion engine ban club' | euractiv.com <https://www.euractiv.com/section/politics/news/slovakia-joins-anti-combustion-engine-ban-club/>

<sup>9</sup>Polish Government seeks annulment of CBAM regulation in European Court of Justice | EY tax news <https://taxnews.ey.com/news/2023-1405-polish-government-seeks-annulment-of-cbam-regulation-in-european-court-of-justice>

<sup>10</sup>China urges EU to ensure new carbon tax complies with WTO rules | reuters.com <https://www.reuters.com/sustainability/china-urges-eu-ensure-new-carbon-tax-complies-with-wto-rules-2023-09-14/>

<sup>11</sup>India plans to challenge EU carbon tax at WTO | reuters.com <https://www.reuters.com/world/india/india-plans-challenge-eu-carbon-tax-wto-sources-2023-05-16/>

<sup>12</sup>Indonesia accuses EU of 'regulatory imperialism' with deforestation law | reuters.com <https://www.reuters.com/business/environment/indonesia-accuses-eu-regulatory-imperialism-with-deforestation-law-2023-06-08/>

<sup>13</sup>Final regulations published for new EU Carbon Border Adjustment Mechanism (CBAM) and EU Emission Trading System revisions; CBAM transition period begins 1 October 2023 | EY tax news <https://globaltaxnews.ey.com/news/2023-0925-final-regulations-published-for-new-eu-carbon-border-adjustment-mechanism-cbam-and-eu-emission-trading-system-revisions-cbam-transition-period-begins-1-october-2023>

# 3 Other issues we are watching

## Argentina's economic crisis creates an uncertain election outcome

In July, the International Monetary Fund (IMF) signed a new agreement with Argentina. But the country faces its most serious economic situation in years, with inflation estimated at 124%, foreign exchange reserves at a very low level, and an economy showing signs of contraction, in part due to the most severe drought in decades.<sup>14, 15</sup> The crisis has sparked growing popular support for radical solutions ahead of the 22 October general elections. The current leader in the presidential race, libertarian economist Javier Milei, promises to dollarize the Argentine economy, make important changes to the Central Bank and significantly reduce fiscal spending. The presidential race remains highly fluid, however, and it is likely to go to a second-round runoff vote in November.

**Business impact:** Regardless of who ultimately wins, the depth of the economic crisis will require difficult decisions for the next government. Even if the new president and Congress agree to commit to major reforms, their implementation will be complex. Argentina's official membership in the BRICS as of January 2024 could open additional international funding options, but there are no quick fixes. Companies should expect continued economic and policy uncertainty in the near term.

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

## Poland's next government may further embrace populist policies

On 15 October, Poland's parliamentary elections are expected to be very tight and leave neither the incumbent national-conservative party (Law and Justice or PiS, 37%) nor the main opposition Civic Coalition (30%) with an absolute majority. A PiS-led government may form as a fragile coalition with the far-right Confederation party (11%). It is possible the parties fail to form a government, which would lead to another election. The growing influence of the Confederation party reflects a broader European trend of rising popular support for far-right parties catering to voters impacted by high inflation and weak economic growth.<sup>16</sup>

**Business impact:** A fragile PiS-led coalition government would increase the risk of political instability due to disagreements, which may encourage PiS to focus on upholding public support via more populist welfare policies and agricultural subsidies, as well as continued politicization of monetary policy decisions. EU-funded projects may experience more delays as Brussels withholds funds amid growing tensions with Warsaw regarding energy policy, the rule of law, and Poland's protectionist trade measures on Ukrainian agricultural products. A Civic Coalition-led government could pursue some reforms, for instance judiciary reform, but would face institutional resistance from PiS-affiliated officials.

For more information, contact [Famke Krumbmüller](#).

## Chinese policy moves may provide short-term opportunities

Amid China's slow post-pandemic recovery and rising geopolitical tensions, Beijing has been focusing on taking policy measures to attract foreign investment, boost the private sector, and revitalize the domestic capital market.<sup>17, 18, 19</sup> While targeted stimulus policies can be effective in lifting investor confidence and market sentiment in the short run, the long-term outlook for the Chinese economy will depend on how successfully the government addresses deeper structural issues such as an over-reliance on investment, weak domestic consumption and a shrinking labor force.

**Business impact:** International businesses investing and operating in China could see opportunities stemming from the Chinese government seeking to enhance intellectual property protection, increase fiscal and tax support for foreign-invested companies and streamline the management mechanism for cross-border data flows. However, geopolitical complexities and restrictive investment and trade policies driven by national security concerns – both inside and outside China – will likely continue to weigh on companies' decisions when it comes to doing business in and with China.

For more information, contact [Yi Y Xie](#) and [Courtney Rickert McCaffrey](#).

<sup>14</sup>Argentina | International Monetary Fund <https://www.imf.org/en/Countries/ARG>

<sup>15</sup>Argentina inflation hits 124% as cost-of-living crisis sharpens | Reuters.com <https://www.reuters.com/markets/argentine-shoppers-face-daily-race-deals-inflation-soars-above-100-2023-09-13/>

<sup>16</sup>The Far Right Is Advancing in a Vulnerable Europe Again | Bloomberg.com <https://www.bloomberg.com/news/features/2023-09-11/far-right-parties-are-gaining-traction-across-europe#xj4y7vzkg>

<sup>17</sup>Govt aims to boost foreign investment | The State Council of the People's Republic of China [http://english.www.gov.cn/policies/policywatch/202308/30/content\\_WS64eeacc3c6d0868f4e8def09.html](http://english.www.gov.cn/policies/policywatch/202308/30/content_WS64eeacc3c6d0868f4e8def09.html)

<sup>18</sup>China Vows to Boost Private Economy, Protect Businesses | Bloomberg.com <https://www.bloomberg.com/news/articles/2023-07-19/china-vows-to-boost-private-economy-protect-businesses-lk9n3grq#xj4y7vzkg>

<sup>19</sup>China Securities Regulatory Commission | csrc.gov.cn [http://www.csrc.gov.cn/csrc\\_en/index.shtml](http://www.csrc.gov.cn/csrc_en/index.shtml)

# 4 Geostrategic indicator of the month

Working days lost to strike

## The indicator

Work stoppages have become more frequent in 2023. In mid-September, for instance, the United Auto Workers (UAW) went on strike in the US, affecting automakers General Motors, Ford, and Stellantis.<sup>20</sup> This follows a trend of strikes in various sectors in the US in recent months, which has been dubbed the “hot strike summer.” There has also been a wave of labor actions elsewhere in 2023, including in the UK, Germany, France and Australia.

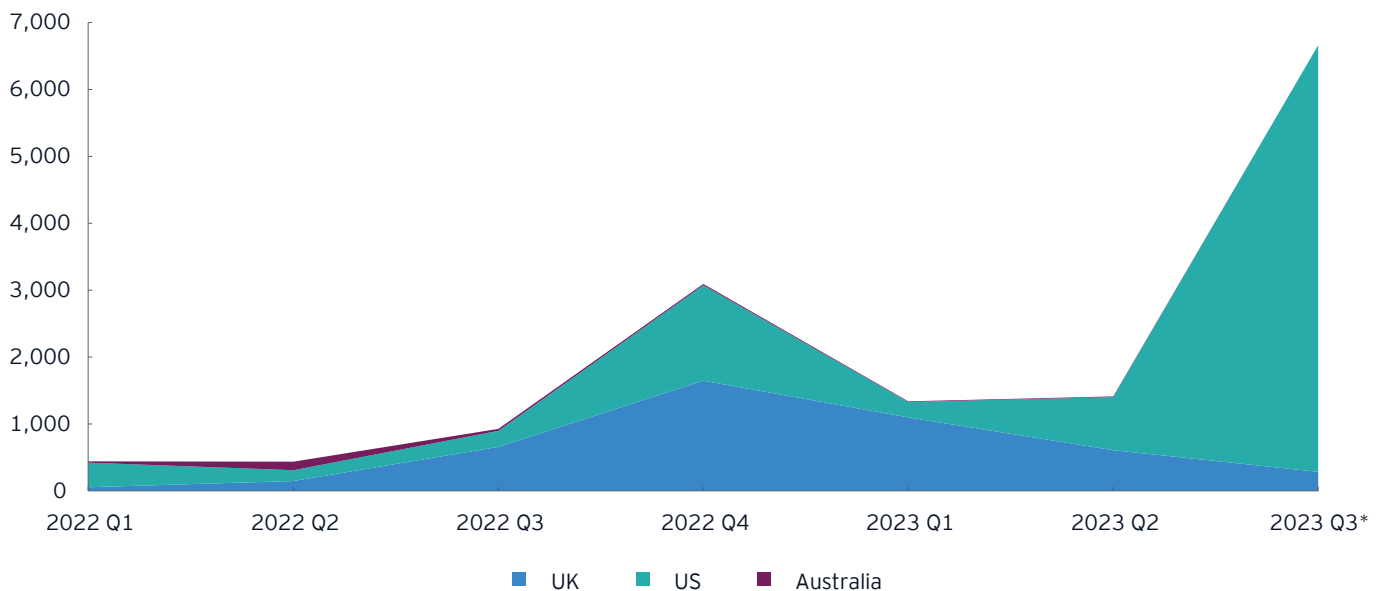
## Business impact

The surge in labor strikes can be attributed in large part to the escalating cost of living, as well as economic shifts associated with the energy transition and new use cases for emerging technologies. Frequent or prolonged work stoppages can disrupt companies’ operations and supply chains, as well as generate risks related to workforce stability. Work stoppages can also generate reputational risks for companies, particularly if public opinion aligns with the workers’ cause.

Additional reading: [Geostrategic Analysis – May 2023 edition](#)

## High inflation has contributed to more frequent labor strikes, which pose operational challenges

Work stoppages in selected countries, total



Note: The graph shows a count of work stoppages involving 1,000 or more workers during each quarter. Countries were selected for inclusion based on data availability. All data is collected from individual country sources, so may be affected by differences in definitions and measurements. Data for 2023 Q3 is partial, through mid-September.

Source: US Bureau of Labor Statistics, UK Office of National Statistics, Australian Bureau of Statistics, EY analysis.

<sup>20</sup>Strike pits US auto union in existential struggle over shift to electric vehicles | Financial Times <https://www.ft.com/content/4752dd8e-3681-488c-a738-051ef5917a64>

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