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 sun is low in the sky, creating a bright glow behind the hikers. The background is a clear blue sky.

Geostrategic analysis

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

April 2024 edition

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

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EY Geostrategic Business Group (GBG)

Translating geopolitical insights into business strategy

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Top development

Rising geopolitical competition over electric vehicles has created global market uncertainties.

What happened

China's longstanding strategic focus on developing its automobile sector – which now includes electric vehicles (EVs) and high-capacity batteries – has led to Chinese firms accounting for nearly 60% of global EV sales and 35% of exports.¹ Chinese EV firms have increasingly diversified their manufacturing locations to Southeast Asia, eastern Europe and Mexico to secure better access to major commercial markets.²

Two key goals of the 2022 Inflation Reduction Act (IRA) were to incentivize EV adoption and manufacturing in the US. China filed a complaint at the World Trade Organization (WTO) against alleged discriminatory subsidies in the IRA. Separately, the US recently launched an investigation into national security concerns over the technology used in electric and other connected vehicles from China and other “countries of concern”.³

The EU is also trying to build up capacity to manufacture EVs within the bloc. And in the midst of investigations on whether Chinese EV manufacturers benefited unfairly from subsidies, the European Commission now requires customs registration of all Chinese EV imports to the EU, a first step toward potentially imposing tariffs.⁴

What's next

Geopolitical competition will continue to influence how governments pursue their energy transition objectives, as they seek both economic growth and energy security. This will lead to a continued focus on securing and de-risking supplies of critical minerals and other inputs for EVs – such as the EU's recent adoption of Critical Raw Materials Act regulations – and boosting domestic production of EVs and other energy transition technologies.⁵

India, Brazil, Mexico, and a variety of emerging markets in Southeast Asia and Europe are likely to continue encouraging EV manufacturers to invest by offering trade and tax incentives. These efforts could diversify the location of EV manufacturing, but not necessarily the companies involved.⁶

Chinese companies' investment in Mexico would likely lead to the US heightening scrutiny of EVs and related components that are imported from Mexico and seek to qualify for favorable US-Mexico-Canada (USMCA) tariff rates and incentives associated with the IRA. Washington may also restrict Chinese EV manufacturers' ability to directly enter the US market.

The EU may impose tariffs – potentially retrospectively – on Chinese EV imports at the end of its anti-subsidy probe in November and may screen Chinese foreign direct investment (FDI) in EV manufacturing based on economic security concerns.⁷ India may also continue to restrict FDI from select countries for similar reasons.

Given the importance Beijing places on “new quality productive forces” to drive the Chinese economy, its industrial policies to support EV manufacturing and other strategic products are expected to continue. In response to any new EU actions, the Chinese government may impose reactive measures such as tariffs on imports of European luxury and consumer goods.⁸

Business impact

Major sectors affected include advanced manufacturing and mobility, technology, and mining and metals.

EV manufacturers should closely monitor the **geopolitical dynamics** affecting their sector to anticipate how new policies and regulations may affect the viability of planned transactions and broader strategies. Governments may restrict investments and exports from geopolitical rivals. For instance, EV companies headquartered in China may face more barriers to accessing the EU market, including tariffs and reduced access to government incentives. Global executives should consider alternative strategic options regarding capital and ownership structures, such as joint ventures and licensing, to manage these risks.

EV and component manufacturers are likely to face heightened policymaker scrutiny of their supply chains and vehicle content requirements, including second- and third-tier supplier relationships for raw materials and technological components and rules of origin concerns. Executives should ensure their company's compliance and **transparency** processes have the capabilities and resources to withstand scrutiny and adapt to any new reporting requirements.

Government investment in EVs is likely to **create opportunities** for some automakers, in both the largest markets as well as in geopolitical swing states. Executives should identify and assess opportunities associated with these enabling policies – while taking into account geopolitical dynamics and alliances when assessing the viability of entering or expanding in particular markets.

Executives across the industry – including suppliers and customers – should engage with policymakers and regulators to build awareness of how new policies and regulations may affect the industry.

For more information, contact [Adam Barbina](#), [Ari B Saks](#), [Alessandro Faini](#), [Courtney Rickert McCaffrey](#).

Additional reading: [How to create a sustainable future for the automotive sector](#)

¹ Executive summary - Global EV Outlook 2023 - Analysis - IEA <https://www.iea.org/reports/global-ev-outlook-2023/executive-summary>

² China's automakers try turning Japanese | Reuters <https://www.reuters.com/breakingviews/chinas-automakers-try-turning-japanese-2024-03-20/>

³ Statement from President Biden on Addressing National Security Risks to the U.S. Auto Industry | The White House <https://www.whitehouse.gov/briefing-room/statements-releases/2024/02/29/statement-from-president-biden-on-addressing-national-security-risks-to-the-u-s-auto-industry/>

⁴ Implementing regulation - EU - 2024/785 - EN - EUR-Lex (europa.eu) https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:L_202400785

⁵ Strategic autonomy: Council gives its final approval on the critical raw materials act - Consilium (europa.eu) <https://www.consilium.europa.eu/en/press/press-releases/2024/03/18/strategic-autonomy-council-gives-its-final-approval-on-the-critical-raw-materials-act/>

⁶ Asia ground zero in the revolution of electric vehicle markets | East Asia Forum <https://eastasiaforum.org/2024/03/19/asia-ground-zero-in-the-revolution-of-electric-vehicle-markets/>

⁷ EPRS_ATA(2023)754553_EN.pdf (europa.eu) [https://www.europarl.europa.eu/RegData/etudes/ATAG/2023/754553/EPRS_ATA\(2023\)754553_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/ATAG/2023/754553/EPRS_ATA(2023)754553_EN.pdf)

⁸ Xi stresses developing new quality productive forces according to local conditions (www.gov.cn) https://english.www.gov.cn/news/202403/05/content_WS65e722bdc6d0868f4e8e4b87.html



Sector in focus: aerospace and defense

Geopolitical tensions are driving increased defense spending, which may be constrained by capacity and economic challenges.

What happened

Russia has increased military spending 70% over 2023 as the Kremlin continues to mobilize industry to support its efforts in the conflict in Ukraine.

The proposed US FY25 defense budget is 1% higher than FY24 – although this is effectively a decrease given inflation.⁹

The EU unveiled its first defense industrial strategy¹⁰, China recently announced a planned 7.2% increase in defense spending for this year, and India boosted military spending 4.7% over last year.¹¹

What's next

Conflict in Ukraine and conflict in the Middle East, as well as geopolitical tensions in Asia, mean that many governments are likely to prioritize increasing military capabilities. Notably, North Atlantic Treaty Organization (NATO) members are forecast to continue expanding defense spending, with 18 of NATO's 31 members expected to achieve the alliance target of 2% of GDP for their defense budgets, up from 11 in 2023.¹²

However, industrial base deficiencies, supply chain constraints and labor shortages are likely to hinder efforts to rapidly increase production of basic items such as artillery munitions, particularly in Europe and the US. More advanced, high-demand systems, such as submarines, are equally at risk of extended delays.

Business impact

Aerospace and defense companies are likely to see continuing demand for their products but may face challenges in executing on current programs while building industrial capacity and investing in new capabilities – particularly given government defense spending is lagging inflation in some markets, putting additional pressure on earnings and investment capacity. Executives should explore [supply chain improvements](#) to manage potential production volatility, even as pressure increases on smaller suppliers to meet demand.

Aerospace and defense companies may also face talent issues in some markets, as structural gaps in engineering talent and other skilled labor are likely to persist for the foreseeable future.

To varying degrees, [governments and militaries](#) in many countries around the world will need to navigate political differences over spending priorities, lower economic growth, and inflation as they seek to replenish stocks and develop next-generation defense systems.

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

Additional reading: [Why supply chain disruption still concerns A&D companies](#) | EY – Global

⁹ FY2025_Budget_Request_Overview_Book.pdf (defense.gov) https://comptroller.defense.gov/Portals/45/Documents/defbudget/FY2025/FY2025_Budget_Request_Overview_Book.pdf

¹⁰ First-ever European defence industrial strategy to enhance Europe's readiness and security - European Commission (europa.eu) https://commission.europa.eu/news/first-ever-european-defence-industrial-strategy-enhance-europes-readiness-and-security-2024-03-05_en

¹¹ Defence Budget 2024-25: Trend Analysis | Manohar Parrikar Institute for Defence Studies and Analyses (idsa.in) <https://idsa.in/issuebrief/Defence-Budget-2024-25-SSC-Rajiv-ASingh-160224>

¹² NATO - News: Secretary General welcomes unprecedented rise in NATO defence spending, 14-Feb.-2024 https://www.nato.int/cps/en/natohq/news_222664.htm

Other issues we are watching

US data security regulations, China's continued innovation drive, India's election

US data security regulations may complicate compliance and strategy

The Biden administration recently issued an executive order to prevent the cross-border transfer of personal data to "countries of concern", which include China, Russia, Iran, North Korea, Cuba and Venezuela.¹³ Subsequent rule-making by executive agencies will focus on restrictions of "bulk data transfers" of geolocation, personal health, financial and other sensitive personal data and of sensitive government data. Officials argue this executive order is not a general data privacy or data localization policy, but rather is driven by national security concerns about how geopolitical competitors and adversaries could use such data.

Business impact: While the executive order is narrowly focused, it is likely to have widespread business impacts. How the Department of Justice and other relevant agencies will design monitoring and enforcement mechanisms remains an open question, with officials currently soliciting feedback from the private sector. Companies should prepare for the potential of increasing compliance costs across their digital supply chains and assess how these new rules, once finalized, may affect business strategies dependent on cross-border [data sharing](#). Executives should also monitor for signs that the US or other countries will introduce further efforts to protect and regulate the digital economy, including the potential for targeted regulations for sectors including e-commerce, biotech and pharmaceuticals.¹⁴

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

China's continued innovation drive

China held the "two sessions" - the Chinese People's Political Consultative Conference, the national political advisory body that puts forward proposals to the government, and the National People's Congress (NPC), the top legislature of China's government - in early March. These sessions signaled continuity on macroeconomic policy, including holding the GDP growth target at "around 5%" again this year. Officials also reinforced that investment will focus on "new productive forces," including technological innovation and advanced manufacturing capabilities.

Business impact: State-driven and -incentivized investment in highly strategic sectors - including advanced semiconductors, artificial intelligence, new energy vehicles and biotechnology - will continue to drive growth opportunities for companies. Given the overall focus on [economic security](#), it is likely domestic companies will have more access to such opportunities. Renewed emphasis on the energy transition may lead to greater investments in [sustainability](#) as well.

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

India's election likely to reinforce manufacturing and infrastructure investments

Recent polling suggests Prime Minister Narendra Modi and his Bharatiya Janata Party (BJP) are likely to secure a third term in government in the elections that will be held during April and May.¹⁵ The BJP and its National Democratic Alliance of parties is expected to form a government during the following months. The BJP itself may even secure a majority of seats in the Lok Sabha, or lower house of parliament, giving Modi a strong popular mandate and a comfortable margin in the legislature to continue executing on his policy agenda.

Business impact: If the election results align with recent polls, the government will likely seek to implement pro-growth economic policies and increase India's global influence. Policies to boost [manufacturing](#) in advanced industries such as semiconductors, EVs and AI are expected to continue, including via further incentives, rebates, and capital support to attract more FDI. The BJP also plans to increase physical and digital infrastructure investment, which could improve logistics for companies operating in India.¹⁶ The government will likely also continue negotiations to potentially reduce trade barriers with the UK, EU and Australia.

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

¹³ Executive Order on Preventing Access to Americans' Bulk Sensitive Personal Data and United States Government-Related Data by Countries of Concern | The White House <https://www.whitehouse.gov/briefing-room/presidential-actions/2024/02/28/executive-order-on-preventing-access-to-americans-bulk-sensitive-personal-data-and-united-states-government-related-data-by-countries-of-concern/>

¹⁴ Shut Out: Data Security and Cybersecurity Converge in Next Wave of US Tech Controls | Rhodium Group (rhg.com) <https://rhg.com/research/shut-out-data-security-and-cybersecurity-converge-in-next-wave-of-us-tech-controls/>

¹⁵ Lok Sabha Election 2024: BJP government has a head start, Modi's third term almost assured, says expert ([cnbc18.com](https://www.cnbc18.com)) <https://www.cnbc18.com/politics/narendra-modi-bjp-lok-sabha-election-2024-news18-opinion-poll-19269001.htm>

¹⁶ Narendra Modi's government outlines record capex in final pre-election budget ([ft.com](https://www.ft.com)) <https://www.ft.com/content/c668f539-1717-4c4b-b4d2-e0096ecef16e>

4 Geostrategic indicator of the month

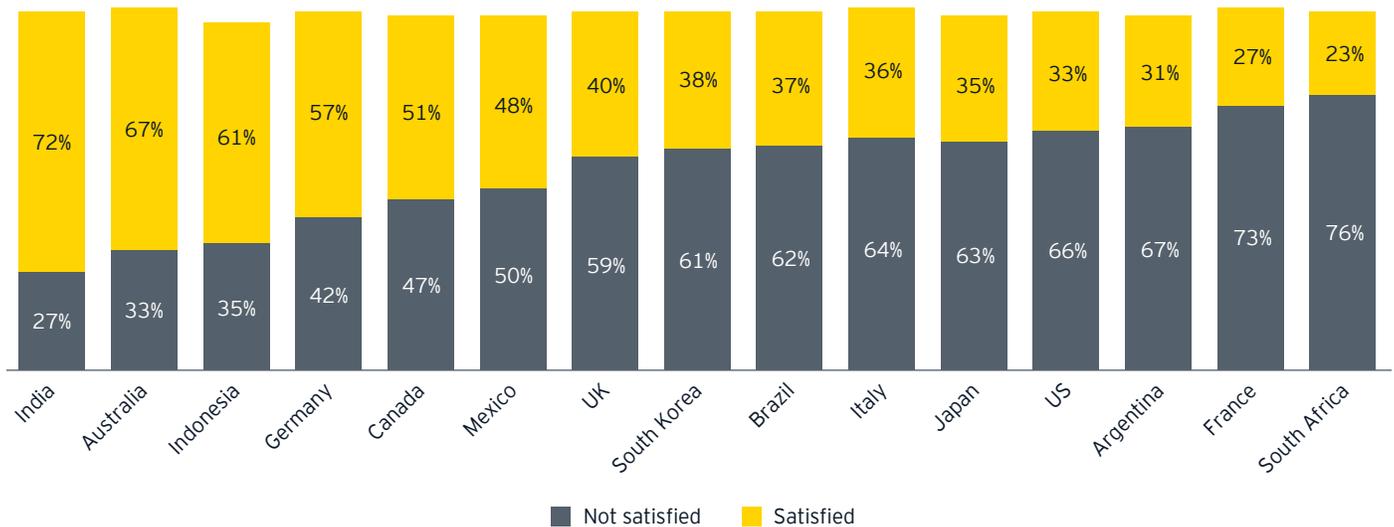
Levels of dissatisfaction with democracy in countries

The indicator

Satisfaction with the way democracy is working in a country is an indicator of trust in and stability of current governing structures. In a Pew Research Center survey of 24 countries, the median dissatisfaction rate stood at 59%. Only seven countries have a satisfaction rate of 50% or more. Given the [global elections supercycle](#) this year, this strong dissatisfaction with democracy could lead to lower voter turnout, higher support for more extreme candidates and parties and more significant policy changes.

High levels of dissatisfaction with democracy in many countries elevate risks in an election year

Level of satisfaction with the way democracy is working in their country (%)



Source: Pew Research Center, Spring 2023 Global Attitudes Survey.¹⁷

Note: The countries shown are G20 members for which the Pew Research Center has data.

Business impact

According to OECD's 2023 Government at a Glance report¹⁸, trust in governments generally creates a more stable environment for businesses, curtails corruption, establishes the authenticity of international rule systems, and promotes innovation. If low levels of satisfaction in democracy persist, it could lead to a prolonged period of political and social instability, and even violence. This would likely disrupt operations and supply chains. Such sociopolitical unrest also raises legal and reputational risks, particularly for foreign companies operating in affected markets.

Additional reading: [2024 Geostrategic Outlook](#)

¹⁷ Pew Research Center, Spring 2023 Global Attitudes Survey https://www.pewresearch.org/global/wp-content/uploads/sites/2/2024/02/gap_2024.02.28_democracy-closed-end_report.pdf

¹⁸ Government at a Glance 2023 | OECD iLibrary (oecd-ilibrary.org) https://www.oecd-ilibrary.org/sites/3d5c5d31-en/1/3/1/index.html?itemId=/content/publication/3d5c5d31-en&csp_=6a6aa038f2496de10696e78b24488941&itemIGO=oecd&itemContentType=book

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