

A photograph of two hikers, a man and a woman, ascending a steep, layered rock face. The man is in front, wearing a brown jacket and blue jeans, using a red trekking pole. The woman is behind him, wearing a light green jacket and beige pants, reaching out to assist him. The background shows a calm sea and a sky with soft, colorful clouds from a sunset or sunrise.

Geostrategic analysis

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

May 2024 edition



Building a better
working world



Table of contents

Top development:

Middle East hostilities raise prospects of regional escalation

Sector in focus:

Mining and metals – Geopolitical competition in deep-sea mining creates risks and opportunities

Other issues we are watching:

South Africa's election, Armenia-Azerbaijan tensions, Vietnam's leadership changes

Geostrategic indicator of the month:

G20 countries' government debt

EY Geostrategic Business Group (GBG)

Translating geopolitical insights into business strategy

[Read more.](#)

This report is provided solely for educational purposes; it does not take into account any specific individual's or entity's facts and circumstances. It is not intended and should not be relied upon as tax, accounting or legal advice. The EY global organization expressly disclaims any liability in connection with the use of this report or its contents by any third party. Neither the EY global organization nor any member firm thereof shall bear any responsibility whatsoever for the content, accuracy or security of any third-party websites that are linked (by way of hyperlink or otherwise) in this presentation. The views expressed by the presenters are not necessarily those of the global EY organization or other members of the global EY organization or of any other company or organization.



Top development

Middle East hostilities raise prospects of regional escalation

What happened

In April, military strikes escalated between Israel and Iran, including an air strike of more than 300 missiles and drones targeting Israel and a reported retaliatory strike in Iran that was widely attributed to Israel.

The G7 and the United Nations (UN) condemned Iran's strike¹ and the United States (US), United Kingdom (UK) and others issued new economic sanctions² on Iranian entities. Meanwhile, hostilities in Gaza continue, as have Red Sea tensions discussed in the February edition of *Geostrategic Analysis*.

What's next

Despite the stated desire of both Iran and Israel, as well as outside powers, to avoid a regional war, the potential for escalations and miscalculations between Iran and Israel is growing, especially if further direct strikes occur. Moreover, continuing hostilities in southern Lebanon and northern Israel further increase the risk of an even larger conflict. Still, all players currently telegraph that they wish to avoid a wider war and in the short term, the focus is expected to return to Israel's military operation in Gaza and efforts to reach a ceasefire with Hamas.

External powers will likely reinforce support for traditional allies, and some may seek opportunities to defuse tensions. The Biden Administration is likely to continue to explore opportunities for historic regional compromises such as the formalization of a Palestinian state and expanding Israel's normalization of diplomatic relations with countries in the region. Russia is likely to further align with Iran, potentially helping to bolster its military capabilities. China will likely seek to maintain its relationships across the region, especially in the Gulf, and could seek a more active mediation role.

In the long term, the specter of Iran's nuclear capabilities will once more be a leading regional priority in global capitals. Given recent tensions, some are likely to intensify exploration of diplomatic and military actions to limit Iran's progress in this sphere.

Business impact

Major sectors affected include energy, financial services, advanced manufacturing and mobility, aerospace and defense.

Regional hostilities involving a major global oil producer could lead to further rise or volatility in global energy prices in the long term. Investors should plan for energy pricing volatility and the potential cost of capital impacts from such changes.

The risk of disruption to commercial transportation in the Strait of Hormuz (and other maritime chokepoints) is likely to persist in the near and medium term, as discussed in the [EY 2024 Geostrategic Outlook](#). Global oil and gas supply could contract if ship seizures accelerate. Corporates dependent on regionally sourced supply chains should consider operational challenges and potential supplier diversification strategies to grow enterprise resilience.

Aerospace and defense companies could see greater demand for advanced anti-missile and drone systems following their success in defending Israel. Similarly, governments will likely maintain increased defense spending in the context of current hostilities both in the Middle East and Ukraine.

For more information, contact [Ben-Ari Boukai](#) and [Jay Young](#)

Additional reading: [2024 Geostrategic Outlook](#)

¹ G7 Leaders' Statement on Iran's Attack Against Israel | The White House <https://www.whitehouse.gov/briefing-room/statements-releases/2024/04/14/g7-leaders-statement-on-irans-attack-against-israel/>

² UK and US sanction leading Iranian military figures and entities following the attack on Israel | UK Government <https://www.gov.uk/government/news/the-uk-and-us-sanction-leading-iranian-military-figures-and-entities-following-the-attack-on-israel>

2 Sector in focus: Mining and metals

Geopolitical competition in deep sea mining creates risks and opportunities

What happened

The US announced the outer limits of its extended continental shelf for the first time in December 2023, expanding its economic maritime claims by about 987,700 square kilometers.³

There are renewed efforts by US senators and former government officials for the Senate to ratify the 1982 United Nations Convention on the Law of the Sea (UNCLOS).⁴ A separate bill introduced in the US House of Representatives encourages deep-sea mining on national security grounds.⁵

At the recent Council of the International Seabed Authority (ISA) session, delegations from Russia and China, which have ratified UNCLOS, objected to the new US maritime claims, noting the US is not a party to the treaty.⁶

What's next

As the energy transition continues, demand for critical minerals – including cobalt, copper, lithium, nickel and rare earths – may continue to grow. Trade in critical minerals has already doubled in the five years to 2022 and is likely to continue to grow significantly as governments and companies seek to increase renewable energy production and reduce greenhouse gas emissions.⁷

The ISA Council will meet again in July to attempt to move forward on the draft exploitation regulations for mineral resources in the international seabed. Given geopolitical tensions and environmental concerns⁸ about such activities, some observers question whether the ISA will be able to finalize these regulations by its stated 2025 deadline.

More countries may move forward on their own, given scientific estimates that about 35-45% of the supply of critical metals will come from deep-ocean mines in the coming decades.⁹ Nauru¹⁰ has been an early mover in this arena, and Norway¹¹ recently became the first country to approve deep-sea mining within its waters.

Business impact

As demand for critical minerals continues to grow, deep-sea mining is likely to become an increasingly active market for private sector capital and government investment. Executives should monitor geopolitical competition and international legal developments to inform their strategies regarding in which countries' economic zones they engage in exploration for or exploitation of minerals.

Environmental concerns about deep-sea mining and ecosystem rehabilitation challenges are likely to persist, so mining companies should develop strategies for oceanic assets in consultation with policymakers and environmental organizations. Doing so can help to manage reputational and license-to-operate risks. Further, banks concerned about the environmental impacts may limit or condition funding streams for miners. Companies that source critical minerals – including automakers – should ensure they have full [transparency into their supply chains](#) for these inputs.

For more information, contact [Courtney Rickert McCaffrey](#) and [Angie Beifus](#)

Additional reading: [Top 10 business risks and opportunities for mining and metals in 2024](#)

³ Executive Summary: The Outer Limits of the Extended Continental Shelf of the United States of America | US Department of State https://www.state.gov/wp-content/uploads/2023/12/ECS_Executive_Summary.pdf

⁴ Murkowski Reintroduces Resolution Calling on U.S. Senate to Ratify Law of the Sea | United States Senator for Alaska Lisa Murkowski <https://www.murkowski.senate.gov/press/release/murkowski-reintroduces-resolution-calling-on-us-senate-to-ratify-law-of-the-sea>

⁵ Rep. Miller Introduces Bill to Support Deep-Seabed Nodule collection and domestic processing to Strengthen National Security and Energy Independence | Congresswoman Carol Miller <https://miller.house.gov/media/press-releases/rep-miller-introduces-bill-support-deep-seabed-nodule-collection-and-domestic>

⁶ ISA Council closes the first part of its 29th session with approval of MoU with FAO and further progress in negotiations on the draft exploitation regulations | International Seabed Authority <https://www.isa.org/jm/news/isa-council-closes-the-first-part-of-its-29th-session-with-approval-of-mou-with-fao-and-further-progress-in-negotiations-on-the-draft-exploitation-regulations/>

⁷ Data Blog – High demand for energy-related critical minerals creates supply chain pressures | World Trade Organization https://www.wto.org/english/blogs_e/data_blog_e/blog_dta_10jan24_e.htm

⁸ Voices calling for a moratorium: governments and parliamentarians | Deep Sea Conservation Coalition <https://deep-sea-conservation.org/solutions/no-deep-sea-mining/momentum-for-a-moratorium/governments-and-parliamentarians/>

⁹ Deep-ocean polymetallic nodules and cobalt-rich ferromanganese crusts in the global ocean: New sources for critical metals | US Geological Society <https://pubs.usgs.gov/publication/70231662>

¹⁰ Policy Watch: After fraught global meeting, future of deep-sea mining still hangs in balance | Reuters <https://www.reuters.com/sustainability/policy-watch-after-fraught-global-meeting-future-deep-sea-mining-still-hangs-2023-08-03/>

¹¹ Deep-sea mining: Norway approves controversial practice | BBC <https://www.bbc.com/news/science-environment-67893808>



Other issues we are watching

South Africa's election, Armenia-Azerbaijan military tensions, Vietnam leadership changes

South Africa's election to reshape the local political landscape

In the upcoming election on 29 May, the ruling African National Congress (ANC) is expected to lose its majority.¹² Opposition parties, varying from the leftist Economic Freedom Fighters to the right-leaning Democratic Alliance, could therefore gain influence in domestic policymaking and international affairs through coalition governments¹³, at both the national and local levels, potentially affecting areas such as economic policy and South Africa's foreign relations.

Business impact: The result of the upcoming elections could create uncertainty in sectors such as natural resources and energy, banking, and tourism, considering potential changes to the policy stance of government and to leadership roles at key government departments. Companies should also anticipate negative impacts to government services, particularly at a municipal level, such as road maintenance, and electricity and water supply disruptions. Further, if the ANC enters into coalition governments with populist parties, it could weaken investor sentiment, impacting capital flows and market stability.

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

Armenia-Azerbaijan tensions to increase regional instability

On 5 April, the European Union (EU) pledged €270 million in grants to support Armenia's economy as it pivots away from Russia, a historically.¹⁴ This comes after Russia was viewed as insufficiently supportive in Armenia's confrontation with neighboring Azerbaijan, which is backed by Turkey. Azerbaijan and Armenia have reportedly started to demarcate the border, which may change the terms agreed in their 2020 peace agreement.¹⁵ In a sign of growing frustration with Armenia's alignment with the West, Russia is withdrawing its peacekeeping troops from the disputed region. Despite the EU and the US continuing to encourage a diplomatic solution, there remains a risk of renewed conflict along the border.

Business impact: The EU economic support package is focused on investments in energy infrastructure, including a new Black Sea electricity cable to supply clean energy to the EU. Meanwhile, Armenia has been enhancing its regulatory environment, including anti-corruption and rule-of-law reforms, to attract foreign investors. However, the looming threat of renewed conflict could undermine investor confidence in the region. Energy providers should thus evaluate market growth opportunities in the context of a heightened risk environment.

For more information, contact [Barry Perkins](#) and [Famke Krumbmuller](#)

Vietnam leadership changes create policy and regulatory uncertainty

The resignation of Vietnam's president in March – marking the second departure of the country's head of state in less than two years – and of the legislative speaker in April, have created new political uncertainty in the country.¹⁶ These resignations are reportedly the result of ongoing anti-corruption efforts that seek to secure economic and social stability. Selection of a new president is complicated by a potential second anticipated leadership appointment to replace the Communist Party of Vietnam's general secretary, whose term will expire in early 2026 but may end earlier due to speculation about his poor health.

Business impact: Ongoing leadership turnover creates political and policy uncertainty for companies as Vietnam continues to benefit from broader supply chain diversification trends. While Vietnam is expected to enhance its position as a critical global manufacturing destination, companies and investors should continue to adopt stronger [political risk management](#) capabilities and plan for regulatory uncertainty during what could be an extended period of political change. Stronger corporate governance requirements will also elevate reputation and compliance requirements for companies.

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

¹² South Africa election 2024 lookahead | House of Commons Library <https://commonslibrary.parliament.uk/research-briefings/cbp-9953/>

¹³ South Africa's upcoming election could change everything | GIS Reports <https://www.gisreportsonline.com/r/south-africas-upcoming-election-could-change-everything/>

¹⁴ Press statement by President von der Leyen on a Resilience and Growth Plan for Armenia | Office of the European Commission President https://ec.europa.eu/commission/presscorner/detail/en/STATEMENT_24_1862

¹⁵ Armenia and Azerbaijan move closer to normalizing ties as the first border marker goes up | AP News <https://apnews.com/article/armenia-azerbaijan-border-peace-7795b3f718606a65f56c597f6a4c64e7>

¹⁶ Vietnam's president quits after one year on the job amid signs of political turmoil | South China Morning Post <https://www.scmp.com/news/asia/southeast-asia/article/3256120/vietnams-president-quits-after-one-year-job-amid-signs-political-turmoil>

4 Geostrategic indicator of the month

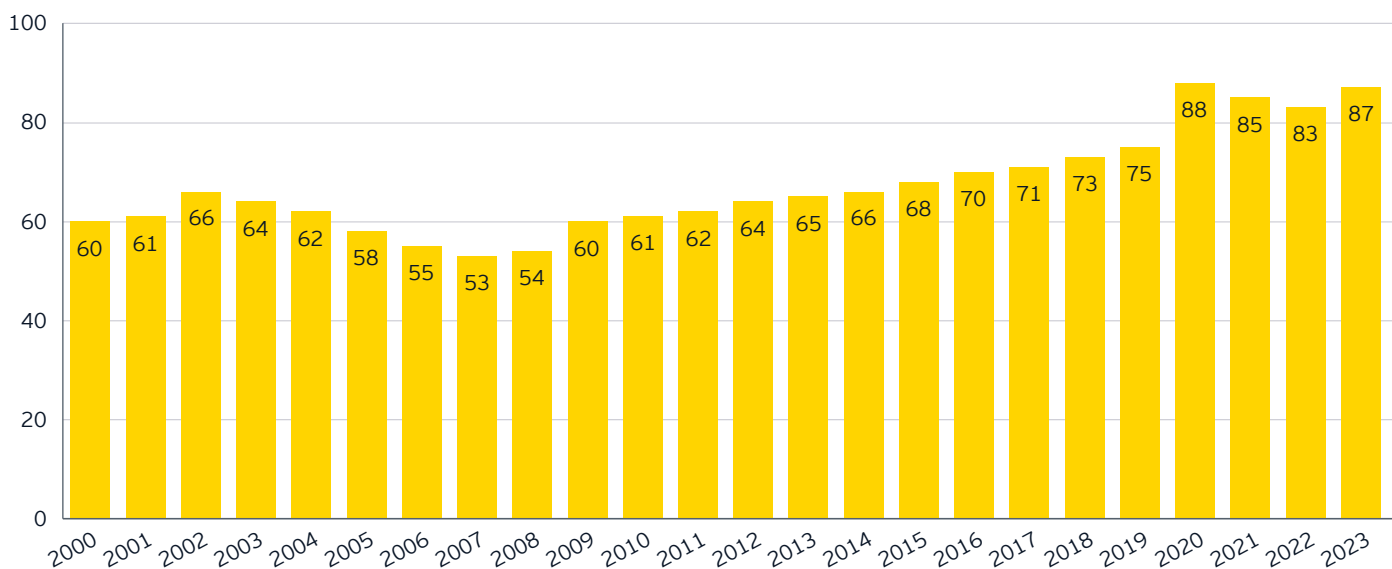
G20 countries' government debt

The indicator:

In recent decades, government debt has risen substantially across major economies. Higher interest rates have made the need for debt management more urgent. For example, the US and the UK are expected to reach unprecedented highs in government debt in the forthcoming year.¹⁷ With jurisdictions accounting for 60% of global GDP going to the polls this year, debt levels are likely to rise even further because many governments tend to increase expenditure ahead of elections, to stimulate economic momentum and constituent support.

Government debt began increasing after the global financial crisis, and the trend accelerated during the pandemic.

Government gross debt (% of GDP), G20 member country average



Source: IMF World Economic Outlook April 2024

Note: This graph presents the simple average of government gross debt levels (as a % of GDP) for all 19 country members of the G20.

Business impact:

High or rising debt levels could prompt governments to seek additional sources of revenue, which raises the risk of tax increases for companies. Debt levels also raise the risk of sovereign default in some jurisdictions. Such a scenario would directly affect revenue and growth prospects. On the other hand, social spending cuts can be politically destabilizing, leading to a significant increase in support for populist parties as well as a rise in political fragmentation. Companies should therefore prepare for potential swings in capital costs and operational conditions in countries with debt issues.

Additional reading: [How a government struggling with debt navigated towards a brighter future](#)

¹⁷ Investors warn governments about high levels of public debt | Financial Times <https://www.ft.com/content/33f85fd6-55ec-45a1-a1b6-69a845726d58>

Contacts



Oliver Jones
London
oliver.jones@uk.ey.com



Angelika Goliger
Johannesburg
angelika.s.goliger@za.ey.com



Mary Karol Cline
Washington DC
mary.k.cline@ey.com



Courtney Rickert McCaffrey
Washington DC
courtney.r.mccaffrey@ey.com



Adam Barbina
New York
adam.l.barbina@parthenon.ey.com



Ari B. Saks Gonzalez
Mexico City
ari.b.saks.gonzalez@mx.ey.com



Ben-Ari Boukai
Washington DC
ben-ari.boukai@parthenon.ey.com



Jay Young
Dallas
jay.young1@parthenon.ey.com



Famke Krumbmüller
Paris
famke.krumbmuller@parthenon.ey.com



David Kirsch
Houston
david.e.kirsch@ey.com



Nobuko Kobayashi
Tokyo
nobuko.kobayashi@parthenon.ey.com



Alessandro Faini
Paris
alessandro.faini@parthenon.ey.com

EY | Building a better working world

EY exists to build a better working world, helping create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

© 2024 EYGM Limited.
All Rights Reserved.

EYG no. 004786-24Gbl

2403-4489116
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, legal or other professional advice. Please refer to your advisors for specific advice.

ey.com