

Geostrategic analysis

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

July 2024 edition



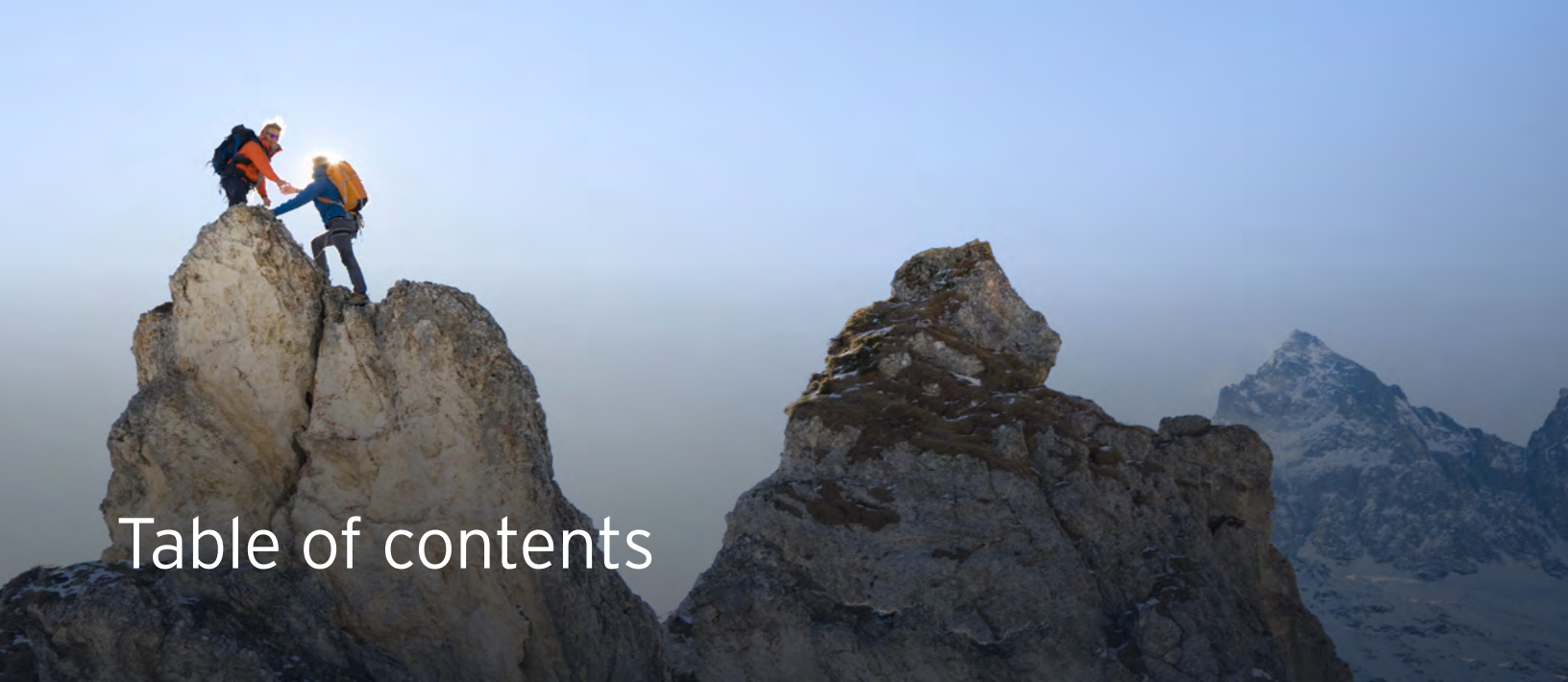


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EY-Parthenon Geostrategic Business Group (GBG)

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Top development

France and UK elections are likely to lead to policy volatility

What happened

Recent elections in the European Parliament, France and the UK confirmed the surge of far-right populism in Europe, increasing political fragmentation and policy uncertainty with various implications for businesses.

In France, the snap legislative elections resulted in a hung parliament of three blocs of similar size: the alliance of left parties – New Popular Front (NFP) won 188 seats, President Emmanuel Macron's centrist alliance Together won 161 seats and the far-right Rassemblement National (RN) won 142 seats – an increase from 89 in the previous parliament but significantly below pre-election expectations.¹

In the UK, although the far-right Reform UK increased its shares of votes significantly from 2% in 2019 (as the 'Brexit Party') to 14%, the left-wing Labour Party (LP) won the election with 34% of total votes – and a 411 seat-majority in Parliament.² This result ends a 14-year period of Conservative Party rule. The Conservatives secured 121 seats (losing 250).

What's next

In France, current Prime Minister Gabriel Attal is continuing in power amid uncertainty over who Macron will appoint as prime minister to lead a minority government (of NFP or Together), a coalition government or a government of non-partisan technocrats. All scenarios come with significant levels of uncertainty. However, given the new parliament's likely inability to agree to significant reforms, relative policy stability can be expected.

At the same time, political instability in France is likely given the government will likely be a minority government or based on an extremely fragile majority. This instability will persist at least until mid-2025 because another snap election cannot be held for at least one year. At the European level, a weakened Macron and an unstable government will mean France will be unable to drive ambitious initiatives.

In the UK, the new Labour government will likely avoid any transformational policy changes in the short term, with targeted public spending prioritized over big investment packages. The new government

is likely to focus on reducing the budget deficit, investing in healthcare and the education system, improving industry decarbonization, and investing in renewables and the tech and Artificial Intelligence sector.

Collaboration between the UK and the European Union is likely to increase, most notably in the fields of trade and investment as well as security cooperation. There will not, however, be a de facto return of the UK to the EU single market and customs union.

Business impact

Major sectors affected include government, financial services, energy, technology and life sciences.

In France, short-term policy inaction amid lengthy political negotiations may offer some policy stability. Companies should closely monitor unfolding political dynamics in the coming weeks and engage in scenario analysis to help anticipate business impacts of likely future directions and prepare plans to adapt swiftly. One key signpost to watch is the first session of the new Parliament on July 18-20. Meanwhile, the country's uncertain fiscal outlook could heighten financial market instability.

International investors in the UK could benefit from incentives to attract foreign direct investment (FDI), especially in green sectors, and domestic businesses may receive support for transitioning to net zero. More broadly, the economic outlook could improve as the new government, with its large majority, offers stability and intends to focus on initiatives that stimulate growth, which would support companies' growth and revenue projections.

As part of government efforts to improve public finances, UK businesses may face tax increases and reduced government demand for professional services. The most likely tax targets are capital gains and for fossil fuel companies, increased taxes on "windfall" profits.

Businesses both in the EU and UK may have opportunities arising from better ties between the two jurisdictions. Targeted trade agreements, comprising standalone sector-specific deals (e.g., digital or energy cooperation) or mutual recognition agreements, may promote services exports. In addition, investment barriers are expected to be reduced.

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

Additional reading: [2024 Foreign direct investment trends in Europe | EY – Global](#)

¹ Poll of Polls – French polls, trends and election news for France | POLITICO <https://www.politico.eu/europe-poll-of-polls/france/>

² General election 2024 results | House of Commons <https://commonslibrary.parliament.uk/research-briefings/cbp-10009/>



2 Sector in focus: Agriculture

Extreme weather events are pressuring agricultural commodity supplies

What happened

Severe weather events exacerbated by climate change have been increasing global agricultural yield volatility and subsequently raising global agricultural commodity prices.³

Flooding in Brazil – one of the world's largest agricultural exporters – throughout the past few months has increased volatility of wheat and soybean output.⁴

Droughts across West Africa have resulted in a spike in agricultural prices, particularly for cocoa beans.⁵

What's next

Agricultural commodities will remain an area of geopolitical competition as food instability and insecurity remains a top concern, as discussed in the [EY-Parthenon 2024 Geostrategic Outlook](#).

As climate change-induced severe weather events worsen, agricultural yields will become more volatile, further constraining global food exports and leading to price increases. Governments will continue to support farmers through public funding and investment to maintain domestic agricultural production.⁶

Business impact

Agribusinesses and farmers should leverage public funding and incentives being passed to strengthen food security as governments look to shore up domestic supply. They should also look to increase crop resiliency efforts like conservation tillage, crop rotation and cover cropping to limit the risk of key products being impacted by severe weather.⁷

Food companies should [diversify their supply](#) chains to limit the risk of a severe weather event impacting a majority of their product, as well as look into diversifying their offerings to hedge against future instability.

For more information, contact [Lauren Chupp](#)

Additional reading: [EY Global Agribusiness 2024 H1 Semiannual Report](#)

³ Eurozone: Why food prices are a channel for more frequent supply shocks | Oxford Economics <https://www.oxfordeconomics.com/resource/eurozone-why-food-prices-are-a-channel-for-more-frequent-supply-shocks/>

⁴ Brazil Floods Likely to Affect Future Crop Seasons (illinois.edu) <https://farmpolicynews.illinois.edu/2024/05/brazil-floods-likely-to-affect-future-crop-seasons/>

⁵ West Africa heatwave was supercharged by climate crisis, study finds | Climate crisis | The Guardian <https://www.theguardian.com/environment/2024/mar/21/west-africa-heatwave-climate-crisis-study>

⁶ Food security threatened by extreme flooding, farmers warn (bbc.com) <https://www.bbc.com/news/science-environment-68792017>

⁷ Explainer: How climate change affects Europe's farmers | Reuters <https://www.reuters.com/business/environment/how-climate-change-affects-europes-farmers-2024-02-14/>

Other issues we are watching

Continuing war in Ukraine; Argentina's economic reform program; Middle East escalations

War in Ukraine unlikely to end soon

Following military advances in early 2024, more recent Russian offensives have yielded only limited gains in terms of territory, although bombings continue to damage Ukraine's energy sector. As highlighted by the Ukraine-Switzerland peace summit held in Switzerland in June, Ukrainian President Volodymyr Zelensky's objectives include territorial integrity, exchange of prisoners of war and nuclear safety. A ceasefire remains unlikely in the short term.⁸ On July 9-11, NATO held its 75th annual summit in Washington, DC, during which member states reaffirmed commitments regarding Ukraine's future membership, military aid and reconstruction, including energy infrastructure.⁹ With a record 23 out of 32 states meeting the 2% defense spending target in 2024, the coordination of military aid for Ukraine will shift from the US to NATO.

Business impact: Defense companies will likely continue to face increased demand as NATO governments boost defense spending and increase contributions to Ukraine's defense manufacturing industry. Global companies should continue to monitor their [exposure to evolving sanctions](#) against Russia, which are likely to expand in scope and geography to also include third countries perceived to be supporting Russia's defense industry, which possibly could include goods from China with potential dual-use.¹⁰ In the longer term, international investment in reconstruction could help unlock private capital in Ukraine given the strong interest from foreign companies.

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Argentina's economic reform program progressing

Scaled-back versions of President Javier Milei's proposed economic and tax reform packages passed the Argentine Congress on 28 June, handing Milei his first legislative victory. The two pieces of legislation contain substantial foreign investment incentives, allow privatizing some state-owned companies, give the government "emergency" powers over certain administrative, economic, financial, and energy issues for the next year and reintroduce an income tax, among other measures. Separately, the International Monetary Fund (IMF) authorized another US\$800 million disbursement under the Extended Fund Facility for Argentina and the government also renewed a US\$4.9 billion currency swap agreement with China, which will ease pressure on central bank reserves.¹¹

Business impact: The IMF highlights¹² the potential of the economic reform package to increase the flexibility of the labor market, encourage long-term investments and privatize parts of the economy – all of which would enable Argentina to capitalize on its economic potential¹³, including strong natural resources endowments, agricultural production and human capital. Markets generally welcomed the legislation's initial passage as an important first step toward stabilizing the economy. Implementation may be challenging, however, given societal discontent (and resulting protests) regarding some of the provisions.¹⁴ Milei's government will need to build more popular support by demonstrating that its program can control inflation, increase growth and employment, and encourage investment.

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

Middle East escalations challenge the regional business environment

Tensions between Israel and Hezbollah at the Lebanon-Israel border have been steadily growing, spurring global concerns of a more severe escalation of the conflict in the region.¹⁵ Recent threats against Cyprus further highlight the potential widening risk, even as US-backed mediation attempts continue.¹⁶ Meanwhile, observers indicate Israel's operations in Gaza will likely enter a lower-intensity phase as focus shifts to the border with Lebanon. Following a recent UN Security Council resolution¹⁷ and G7 statements, international diplomatic¹⁸ and domestic public pressure around a Gaza ceasefire will likely intensify.

Business impact: A cessation of hostilities in Gaza could present an off-ramp from recent political and security escalations, which would lead to a more stable regional operating environment. Alternatively, a widened conflict in Lebanon could lead to an intensified regional conflict. In addition to any direct damages, business impacts could include talent shortages, increased costs and reduced productivity to regional businesses. Companies dependent on regional production sites, suppliers or energy sources should revisit supplier resiliency or inventory management strategies. And executive teams and boards should conduct [scenario planning](#) to prepare for different ways in which the crisis could evolve.

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

⁸ Major Ukraine summit ends with fresh plea for peace but key powers spurn final agreement | CNN <https://edition.cnn.com/2024/06/16/europe/ukraine-peace-summit-switzerland-intl/index.html>

⁹ Statement from the G7+ Energy Coordination Group and the Government of Ukraine at the Ukraine Recovery Conference 2024 in Berlin | EEAS (europa.eu) https://www.eeas.europa.eu/eeas/statement-g7-energy-coordination-group-and-government-ukraine-recovery-conference-2024_en

¹⁰ Press statement by President von der Leyen following the trilateral meeting with French President Macron and President of the People's Republic of China Xi Jinping | European Commission https://ec.europa.eu/commission/presscorner/detail/en/statement_24_2464

¹¹ IMF Executive Board Completes the Eighth Review of the Extended Arrangement Under the Extended Fund Facility for Argentina <https://www.imf.org/en/News/Articles/2024/06/13/pr24217-imf-completes-eighth-review-of-the-extended-arrangement-under-the-eff-for-argentina>

¹² Argentina: Eighth Review Under the Extended Arrangement Under the Extended Fund Facility (imf.org) <https://www.imf.org/en/Publications/CR/Issues/2024/06/17/Argentina-Eighth-Review-Under-the-Extended-Arrangement-Under-the-Extended-Fund-Facility-550548>

¹³ A New Growth Horizon for Argentina – Economic Memorandum (worldbank.org) <https://www.worldbank.org/en/country/argentina/publication/un-nuevo-horizonte-de-crecimiento-para-argentina>

¹⁴ Buenos Aires rocked by clashes over President Milei reforms (bbc.com) <https://www.bbc.com/news/articles/c255zldde92o>

¹⁵ Israel nears decision on Lebanon border offensive, army chief says | Reuters <https://www.reuters.com/world/middle-east/hezbollah-wont-widen-war-will-fight-if-needed-deputy-head-tells-al-jazeera-2024-06-04/>

¹⁶ Lebanese officials work to maintain friendly relations with Cyprus following Hezbollah threats | AP News <https://apnews.com/article/lebanon-cyprus-israel-hezbollah-threat-nasrallah-af11dcf77adde513d1d3a6c424548c6a>

¹⁷ Adopting Resolution 2735 (2024) with 14 Votes in Favour, Russian Federation Abstaining, Security Council Welcomes New Gaza Ceasefire Proposal, Urges Full Implementation | Meetings Coverage and Press Releases <https://press.un.org/en/2024/sc15723.doc.htm>

¹⁸ Joint Statement from the Leaders of the United States, Argentina, Austria, Brazil, Bulgaria, Canada, Colombia, Denmark, France, Germany, Poland, Portugal, Romania, Serbia, Spain, Thailand, and the United Kingdom on Gaza | The White House <https://www.whitehouse.gov/briefing-room/statements-releases/2024/06/06/joint-statement-from-the-leaders-of-the-united-states-argentina-austria-brazil-bulgaria-canada-colombia-denmark-france-germany-poland-portugal-romania-serbia-spain-thailand-and-the-un/>

4 Geostrategic indicator of the month

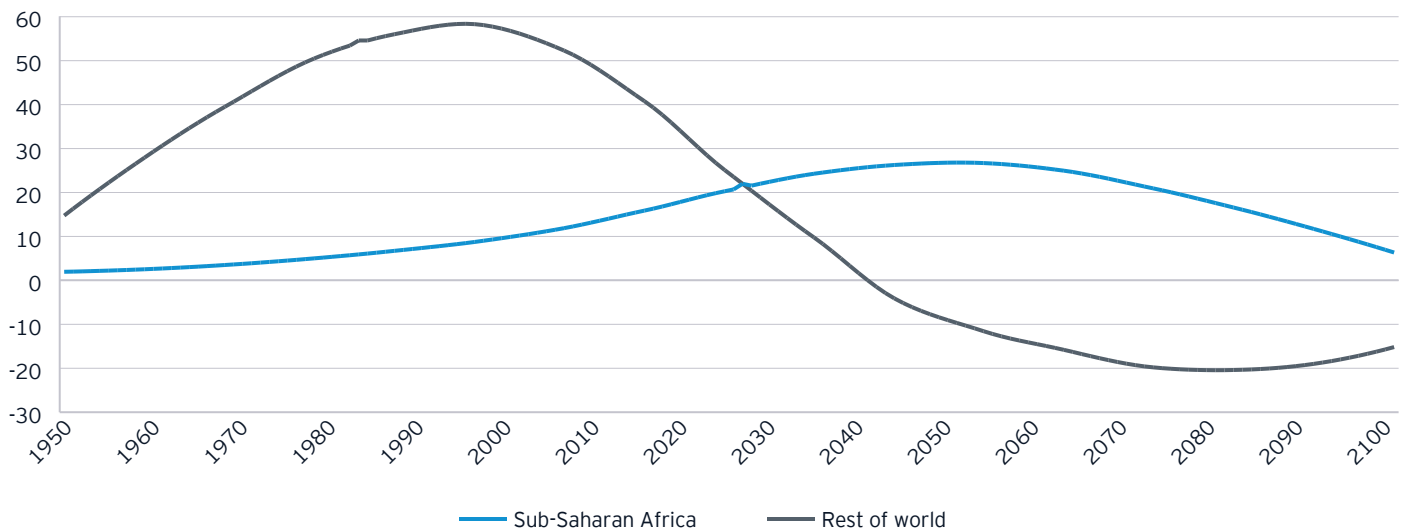
Projected growth of workforce in Sub-Saharan Africa

The indicator:

Sub-Saharan Africa is home to more than 1 billion people, with the working-age population (15-64 years) driving growth. While this demographic is forecast to continue to expand in Sub-Saharan Africa, it will shrink in other regions around the world. A large supply of workers and a favorable dependency ratio (with a large share of the population in the workforce supporting a smaller number of elderly people and children) are often associated with economic growth. Such a youthful, expanding population of working-age individuals provides ample opportunities for African economies to grow in the coming decades – provided these potential workers have sufficient education and employment opportunities.

The workforce in Sub-Saharan Africa is projected to continue to grow, as it contracts in the rest of the world

Working-age population by region (annual change in millions of people)



Source: International Monetary Fund¹⁹

Note: The working-age population is defined as those 15-64 years of age.

Business impact:

The IMF's Regional Economic Outlook highlights that while Sub-Saharan Africa has improved school access, educational outcomes lag behind other developing regions.²⁰ Bridging the gap between the area's human resources and global capital through effective education policies could draw sustained investment. For long-term investments associated with the current diversification agenda, executives need to take into account not only the current supply and composition of a country's labor force, but also its trajectory regarding both size and skill level.

Additional reading: [EY-Parthenon 2024 Geostrategic Outlook](#)

¹⁹ Sub-Saharan Africa's Growth Requires Quality Education for Growing Population (imf.org) <https://www.imf.org/en/Blogs/Articles/2024/04/25/sub-saharan-africas-growth-requires-quality-education-for-growing-population>

²⁰ Regional Economic Outlook for Sub-Saharan Africa, April 2024 | A Tepid and Pricey Recovery (imf.org) <https://www.imf.org/en/Publications/REO/SSA/Issues/2024/04/19/regional-economic-outlook-for-sub-saharan-africa-april-2024?cid=bl-com-SM2024-REOAFREA2024001>

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