

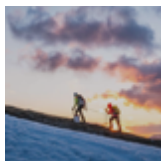
# Geostrategic analysis

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

December 2024 edition



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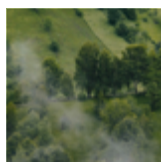
## **Top development:**

The policy shifts of the incoming Trump administration will have global business implications.



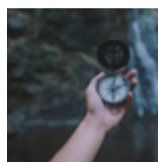
## **Sector in focus:**

Retail



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German government collapse, China's policy meeting and Japan's fractured parliament



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Climate Disruption Index

## **EY-Parthenon Geostrategic Business Group (GBG)**

Translating geopolitical insights into business strategy

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# Top development

The policy shifts of the incoming Trump administration will have global business implications.

## What happened

The November 2024 US elections resulted in a Republican trifecta, in which one party will control the presidency and both houses of Congress. This result gives Republicans the ability to reorient policy and will likely lead to a range of policy changes both domestically and internationally.

Governments in countries around the world – particularly those that have large trade relationships with the US – have stepped up preparations to respond to the policies a second Trump administration is likely to implement.

## What's next

President-elect Donald Trump will continue to announce appointments to his administration between now and the inauguration on 20 January 2025. His transition team will also make plans for executive actions, regulations and policy proposals that he will announce once in office – with trade, tax, immigration and energy policies likely to be priorities.

Once in office, the Trump administration will focus on “remedying” trade deficits, potentially via a proposed 10% baseline tariff on all imports and a 60% tariff on Chinese imports, although in practice tariffs are likely to be applied either more selectively or at a lower level. In this scenario, US trade partners would retaliate with tariffs on US imports. Chinese exports to the US would likely decrease, instead flowing to other markets such as the EU, Latin America and Asia.

The Trump administration will likely also seek to deduce US dependence on Chinese companies via trade and investment restrictions on software, cloud and data firms, and bans on US investment in state-owned enterprises and companies with links to the military. The US may also put pressure on European and Japanese firms serving the US market to diversify supply chains and production away from China.

The Republican-controlled Congress will prioritize a tax bill that is likely to extend some or all of the expiring 2017 Tax Cuts and Jobs Act provisions and may lower the corporate tax rate. This could lead to a further erosion of EU firms’ competitiveness relative to US firms.

The Trump administration will likely seek to fulfill its campaign promise to close the country’s southern border and increase deportations of illegal or undocumented migrants. This could create labor shortages in the US, while also elevating economic strains in Latin American countries that would have to absorb deported migrants and would experience reduced remittances from workers in the US.

Under Trump, the US will seek to expand domestic oil and gas production and de-emphasize investments in the energy transition – both at home and abroad. This could translate into a stronger push for fossil fuel partnerships in the Middle East and less focus on renewable energy collaboration and joint investments in green technologies.

## Business impact

Major sectors affected include technology, industrial products, consumer products and energy.

Companies that export to the US will face elevated uncertainty in the months and years ahead. Global trade patterns may shift further, with some markets experiencing a significant influx of products from China and other countries targeted by US tariffs. Executives should assess how shifting trade policies may affect their supply chain strategy, while also fostering an open dialogue with industry bodies, government officials, business partners and other stakeholders about customs and [international trade issues](#).

Any modifications to tax policy possess the potential to generate both beneficiaries and those who may be adversely affected. Working together with trade and industry bodies, investors and other stakeholders, companies should highlight the likely impact of taxation policies, especially where they may lead to a relocation of assets or capital. And executives should engage in [tax planning](#) to manage business and market risks effectively.

The hardening of technology blocs will likely continue amid Washington’s de-risking efforts. This will affect companies across all sectors that rely on products such as semiconductors, data centers and artificial intelligence (AI). Executives need a detailed understanding of their data and technology value chain and where de-risking policies could cause disruptions or cost increases, and adapt their [supply chain strategy](#) accordingly.

As the US federal government softens or eliminates some climate regulations and sustainability reporting requirements, some US states and other countries are likely to move in the other direction, meaning opportunities will continue to exist. Inconsistent sustainability regulations will create uncertainty, hinder cross-border interoperability and raise compliance and reputational risks. Executives should closely [monitor climate policy](#) changes to manage these risks.

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

Additional reading: [2024 US elections: 6 key issues for cross-border businesses](#)



# 2 Sector in focus: Retail

Global elections will shift the operating landscape for retailers.

## What happened

Throughout the 2024 global election supercycle, issues such as inflation and economic uncertainty prompted many voters to support populist parties or advocate for changes in government. Retailers have also directly experienced the consequences of “price fatigue”.

Political rhetoric emphasizing a tough stance on immigration played a significant role in many elections this year.

## What's next

The incoming Trump administration in the US is considering tariffs ranging from 10% to 20% on all imports, in addition to imposing higher tariffs on goods from China. These actions would likely lead to retaliatory tariffs from US trading partners.

Several new governments, including those in the UK and France, are increasing certain tax rates, while others, such as those in the US and South Korea, are proposing tax reductions.

Should governments proceed with proposals to cut or reverse migration, it could lead to increased cost pressures as a reduced labor pool pushes up wages and reduces workforce capacity.

For more information, contact [Jon Copestake](#) and [Malin Andréé](#).

## Business impact

[Tax planning](#) will be crucial for retailers. Lower taxes on households could enhance consumer spending power, while higher corporate taxes may result in reduced consumer spending over time.

Rising wages and lower unemployment could boost spending with retailers. However, those catering to the consumption habits of immigrant communities might face challenges. Executives should explore which [commercial strategies](#) are most likely to succeed in this environment.

Many proposed policies could have an inflationary impact. Retailers can respond by balancing sourcing strategies – such as increasing inventory in the short term before new tariffs are imposed and [diversifying supply chains](#) in the long term – while exploring how to pass costs on to consumers.

Additional reading: [Redefine value for consumers in the festive season | EY – Global](#)



# Other issues we are watching

German government collapse, China's policy meeting and Japan's fractured parliament

## German government collapse deepens business uncertainty

After the collapse of Germany's ruling coalition on 6 November, Chancellor Olaf Scholz is now heading a minority government until snap elections are held on 23 February 2025. Polls<sup>1</sup> suggest the election may result in a potential coalition between the center-right CDU/CSU and center-left SPD or the Greens, led by CDU leader Friedrich Merz. Policy plans will prioritize tax and labor market reforms to address years of economic stagnation and could include a reform of the constitutional debt brake which has been limiting Germany's ability to invest.

**Business impact:** This level of heightened political instability in Germany creates uncertainty for businesses. This uncertainty is amplified by the incoming Trump administration, with proposals for trade policies that could seek to reduce Germany's record bilateral trade surplus. The [automotive sector](#) is likely to be particularly exposed. Business leaders should monitor the evolving domestic political and policy landscape, assess potential tariff impacts, and [adopt scenario planning](#) and market diversification strategies to mitigate escalating economic challenges.

For more information, contact [Maxim Hofer](#).

## China's policy meeting highlighted policy priorities in 2025

The Political Bureau (Politburo) of the 20th Central Committee of the Communist Party of China convened the Central Economic Work Conference (CEWC) on 11-12 December. This two-day meeting determines China's economic priorities for the upcoming year, and is therefore closely watched by business leaders, economists and other policymakers around the world. Policy decisions will likely be released over the next several weeks, with final confirmation of these policies occurring at the March 2025 "Two Sessions" and in Premier Li Qiang's annual Government Work Report.<sup>2</sup>

**Business impact:** The government decided on stronger stimulus measures related to boosting domestic consumption demand and weak business sentiment. In 2025, sectors that account for a large share of the Chinese economy, such as real estate, manufacturing and exports, or [industries](#) with strategic importance such as telecommunications, climate technologies and AI, will likely benefit from more favorable policies. Companies with operations in China should monitor these policy plans and developments to gain insight into where future growth opportunities are most likely.

For more information, contact [David Li](#).

## Japan's fractured parliament signals policy continuity in the short term

The Liberal Democratic Party (LDP), having lost its majority in the lower house of Japan's National Diet for the first time in 15 years, will now govern in a fragile minority coalition with its partner Komeito. Policy continuity, including pro-growth economic policies, is expected through at least the upper house elections, expected by July 2025. The coalition government will yield to opposition parties on certain issues, though, as evidenced by the opposition Constitutional Democratic Party's role in chairing the lower house budget committee.

**Business impact:** The uncertain political environment creates for a more uncertain economic environment, which may reduce pressure on the Bank of Japan's rate normalization, but if the US dollar continues to strengthen, that may be an impetus for further increases or foreign exchange intervention. With relative domestic policy continuity, Japanese companies should focus on analyzing the potential impacts of the incoming administration in the US, modeling the impact of shifts in trade and tax policy on their [supply chains](#) and business models and considering potential responses.

For more information, contact [Nobuko Kobayashi](#) and [Kyle Lawless](#).

<sup>1</sup> Forschungsgruppe Wahlen > Aktuelles > Politbarometer <https://www.forschungsgruppe.de/Aktuelles/Politbarometer/>

<sup>2</sup> China releases full text of government work report [https://english.www.gov.cn/news/202403/12/content\\_WS65f06025c6d0868f4e8e506c.html](https://english.www.gov.cn/news/202403/12/content_WS65f06025c6d0868f4e8e506c.html)



# 4 Geostrategic indicator of the month

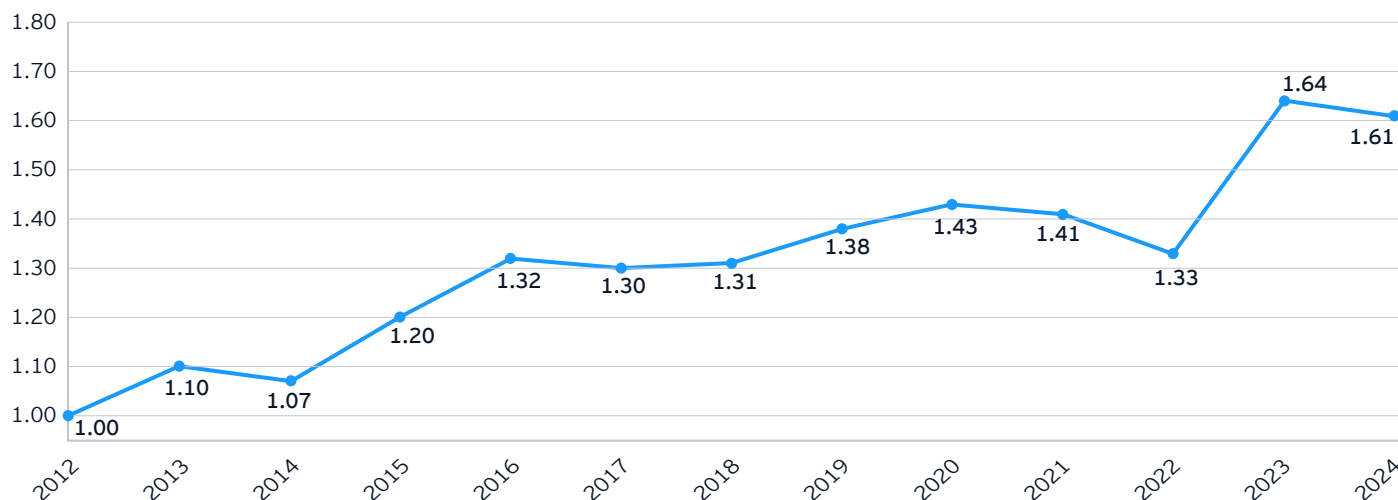
## EY Climate Disruption Index

### The indicator:

The [EY Climate Disruption Index](#) captures the escalating complexity and risk from converging climate trends. This measure highlights the decade-long increase in key indicators such as global CO2 emissions from fossil fuels, combined land and sea temperatures, average sea level rise, and the frequency of costly natural disasters. By this measure, the trend that is emerging is one of intensifying climate disruption due to rising temperatures, sea levels, and the impact of natural disasters.

### The climate disruption index is steadily rising due to increasing temperatures, higher sea levels, and the impacts of natural disasters

Climate Disruption Index



Source: In a complex world, how can rethinking everything bring you clarity?

Note: The Climate Disruption Index is a composite of change in global temperatures (land and sea), mean sea level change, number of billion-dollar natural disasters, and global fossil fuel carbon dioxide emissions. Indexed to 2012. Data for 2024 is a YTD (Jan-Oct) estimate.

### Business impact

The nexus between climate change and political risk will persist. Extreme weather events and shifts in climate patterns will affect governments' policy priorities. And energy transition policies will continue to create new political risks and geopolitical tensions around climate financing. Climate disruption also has a direct impact on business operations. Take supply chains. The 2021 Texas freeze disrupted petrochemical networks, and the 2021 floods in China disrupted [manufacturing industries](#).<sup>3</sup> Executives must now anticipate and plan for such events in their logistics strategies. Yet, despite climate disruption continuing to grow, the 2024 EY Global Climate Action Barometer shows that only 41% of major firms have disclosed a climate transition strategy.

Additional reading: [2024 EY Climate Action Barometer](#)

<sup>3</sup> From coal to cars, Chinese floods tangle supply chains | Reuters <https://www.reuters.com/business/sustainable-business/coal-cars-chinese-floods-tangle-supply-chains-2021-07-22/>

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