

The future of globalization

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September 2022



In brief

- ▶ Geopolitics has shifted dramatically, and the outlook for the global operating environment is increasingly uncertain.
 - ▶ Global scenario analysis reveals diverging paths for geopolitics, economic policies and company strategies.
 - ▶ CEOs and boards should use scenario analysis to strategically position their company to flourish during the turbulent times ahead.
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CEOs and boards need to revisit their existing business strategies and challenge the implicit geopolitical assumptions that underpin them.

In the [EY CEO Outlook Survey 2022](#), CEOs highlighted geopolitical tensions as the most critical risk to their future growth strategies. And that was before the start of the war in Ukraine, which has generated the most significant geopolitical shift since the end of the Cold War. While the global operating environment is never static, this level of geopolitical disruption presents significant challenges to international companies. Recent events have accelerated a shift toward a multipolar world.

But there is no guarantee that this trajectory will continue. Geopolitical disruption and volatility are set to persist, which will also affect global economic growth and inflation. Indeed, there are multiple disruptive forces shaping the global operating environment, including climate change, technological innovation, demographic shifts and the rising influence of non-state actors. This creates a highly uncertain outlook for the future of globalization.

Navigating such geopolitical uncertainty requires scenario analysis – the systematic exploration of multiple plausible futures. In shaping their company strategy, CEOs should not rely on one set of predictions about the outlook for globalization, as it may prove incorrect. They should instead assess the potential business implications and strategic imperatives of several alternative global operating environments rather than trying to predict a precise outcome. For our latest installment in the [CEO Imperative series](#), which addresses critical issues and actions to help CEOs reframe the future of their organization, the experienced team in the [EY Geostrategic Business Group](#) analyzed current geopolitics to explore what scenarios are likely to emerge in the next five years.

EY analysis revealed two key uncertainties that will be the primary drivers of the future global operating environment:

- ▶ **Geopolitical relations**

This key uncertainty pivots on the critical question of whether the geopolitical environment will be defined by loose alliances or distinct blocs. The answer will be driven largely by the outcome of the war in Ukraine and China's geopolitical positioning. The policies of the US and EU will also play a crucial role, including the strength and cohesiveness of transatlantic relations. And the foreign policies of various [middle powers](#) – including India, Australia, Turkey and Brazil – will help shape future geopolitical relations.

- ▶ **Economic policy stance**

Governments have been increasingly intervening in their national economies. The second key uncertainty is whether countries will continue to favor such nationalist competition or shift toward more internationalist liberalization in their economic policies. This will be determined by how much governments embrace industrial policies and expand the number of sectors they deem nationally strategic. Such policy decisions will, in turn, be driven by the evolution of the COVID-19 pandemic, global food security, energy security, climate change impacts and the strength of economic growth.



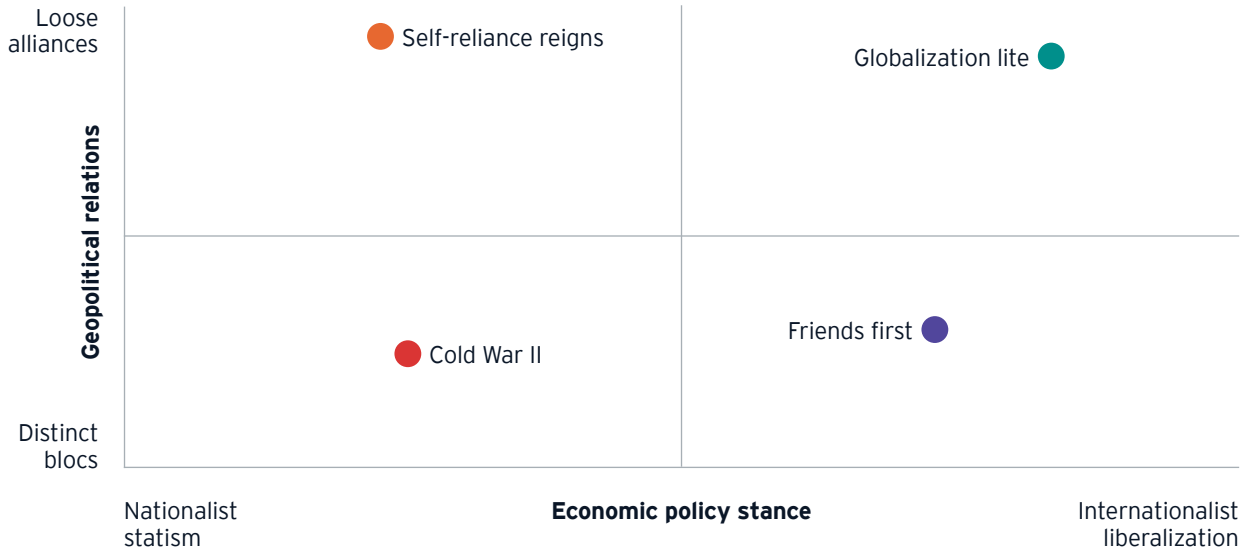
Having identified geopolitical relations and countries' economic policy stances as today's two key global strategic uncertainties, we focused on four plausible scenarios for the future of globalization based on the intersection of these issues (see figure 1).

- ▶ **"Self-reliance reigns"** would result from decaying alliances and weak economic growth pushing countries to promote domestic production and seek greater self-sufficiency.
- ▶ **"Cold War II,"** in contrast, would arise from a hardening of alliances and ideological competition combined with nationalist and statist economic policies.
- ▶ **"Friends first"** would also be characterized by strong geopolitical alliances, but trade and capital flow relatively freely among allies, leading to companies "friendshoring" key operations and supply chains.
- ▶ **"Globalization lite"** would be a relatively liberalized and globalized operating environment with lower geopolitical tensions.

Figure 1

Four plausible global scenarios for 2027

Geopolitical disruptions heighten uncertainty about the future of globalization.



Source: EY analysis.

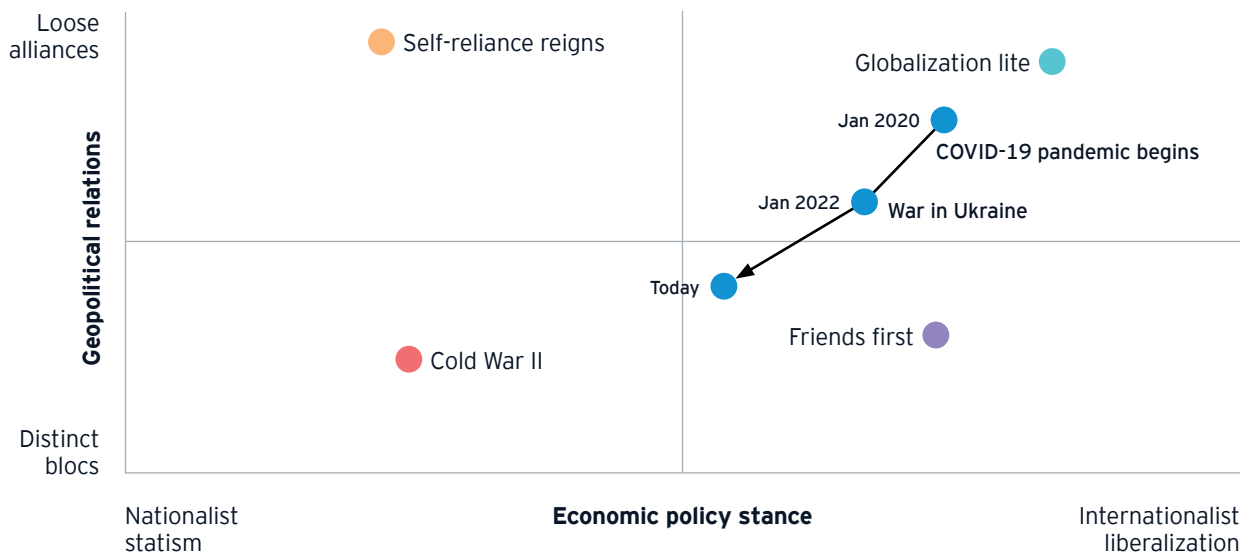
Since the end of the Cold War in the early 1990s, the global operating environment has been in the quadrant surrounding our Globalization lite scenario. The world shifted toward full globalization in the 1990s and early 2000s, and then began to move inward on the matrix following the 2008-09 Global Financial Crisis. But recent systemic shocks have created significant momentum toward a Cold War II scenario and away from more open globalization. Government responses to the COVID-19 pandemic created an immediate move toward more nationalist, statist policies. And, over time, greater cohesiveness within alliance systems developed. The war in Ukraine produced a dramatic shift toward more distinct blocs in the geopolitical system and more statist economic policies. Currently, this trend seems set to persist.



Figure 2

The recent trend toward Cold War II

Systemic shocks have moved the world away from more open globalization.




Source: EY analysis.

Although recent momentum had been toward Cold War II, near- and medium-term events could shift the trajectory toward another scenario. A deterioration in alliances could lead to a turn toward Self-reliance reigns. And a proliferation of regional trade agreements could precipitate a turn toward Friends first. More dramatic shocks – such as a quick end to the war in Ukraine and a strong global economic rebound – could even reverse the recent momentum and push the world back toward Globalization lite.

Of course, the future of globalization could fall somewhere between these scenarios. Or globalization could develop in more extreme ways over the next five years. For example, it could be derailed by the world veering toward a large-scale military conflict between great powers (i.e., a “hot war”). There are a variety of current tensions that make such scenarios possible. But we do not assess them to be as likely as the more moderate scenarios detailed here.

Examining our set of four scenarios can help CEOs structure the uncertainty they face, allowing them to analyze and prepare for potential consequences in a more strategic way. To help CEOs and boards assess how they may need to revise their company strategy to adapt to whichever future global operating environment arises, we explore each scenario in more detail below. The scenarios are set out in order, from (broadly) the most to the least restrictive policy environment for international business.



Chapter 1

Self-reliance reigns

A Self-reliance reigns world would create a variety of challenges for international companies amid an era of isolationism.

The Self-reliance reigns scenario offers a rerun of the 1930s but with greater isolationism. Fraying alliances create a more volatile geopolitical environment; economic and security rationales are conflated; nationalism and populism are ascendent; and many national leaders turn away from alliances and international engagements.

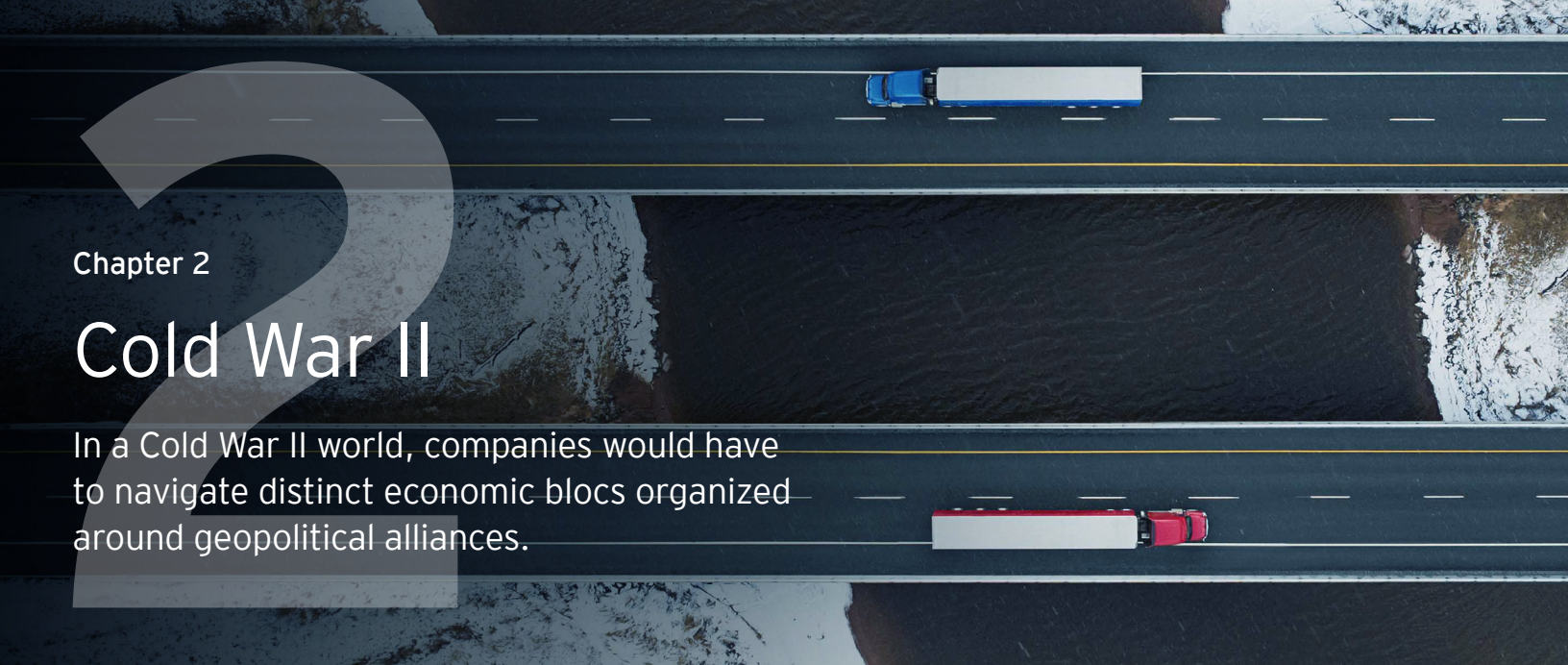
Policymakers are motivated by achieving domestic self-sufficiency and economic security despite the high costs involved. Industrial policy, protectionism and export controls are embraced as antitrust efforts weaken to create national champions in an increasingly broad set of geostrategic sectors – ranging from technology and energy to life sciences and agribusiness.

Isolationist policies result in increased trade volatility, creating a subdued and unstable economic growth outlook. Nationalist policies, including trade barriers, price controls and other restrictive measures, further fuel inflation. Isolationism, weaker technological progress and increased conflict risks limit business investment and productivity growth.

This low-growth, low-innovation environment leads to public frustration with stagnant living standards. This, in turn, drives further political instability and international isolation. Global trade and capital flows diminish as countries bring supply chains and strategic sectors onshore. Economies fragment into domestically focused enclaves, limiting growth and investment opportunities. While companies in larger markets may have sufficient growth opportunities, those in smaller markets hit walls.

A Self-reliance reigns world would create various challenges for international companies, including:

- ▶ **Revenue**
Pockets of growth in geostrategic sectors provide some opportunities, but most companies face more modest growth, higher inflation and diminished revenue potential.
- ▶ **Growth and investment**
M&A and other investment opportunities are mostly constrained to domestic markets, limiting business growth.
- ▶ **Operations and supply chain**
Protectionist politics – as well as the lack of global coordination on climate change – make cross-border supply chains costlier and more difficult to manage.
- ▶ **Data and intellectual property**
Protectionist trade measures, industrial policies and data privacy rules restrict cross-border data flows and limit global innovation.
- ▶ **Human capital**
Heightened nationalism leads most countries to limit international migration, leading to labor shortages and higher talent costs in many markets.
- ▶ **Finance and tax**
Tax rates may increase to pay for industrial policies, although nationalized economies create less need for foreign currency holdings.
- ▶ **Reputation and compliance**
Lack of international cooperation creates a complex regulatory environment, while nationalism increases reputational risks for companies operating abroad.



Chapter 2

Cold War II

In a Cold War II world, companies would have to navigate distinct economic blocs organized around geopolitical alliances.

The Cold War II scenario matches many of the characteristics of the first Cold War. The hardening of alliances and ideological competition create a world order defined by two distinct blocs. But in this scenario, based on current trends, one bloc is likely to be comprised of the US, the EU and their allies; the other led by China and its allies. There is also a third, volatile bloc of largely non-aligned countries that are under pressure to choose a side. Geopolitical tensions are high, and there are more conflicts, including proxy wars between the great powers.

Security, rather than economic rationales, drives domestic policymaking. Governments intervene in supply chains, limit cross-border investments, and impose export controls and further restrictions on doing business with companies in other blocs. Technology is at the center of geopolitical competition.

Governments introduce industrial policies and trade protectionism in an increasing number of geostrategic sectors – spreading from technology and energy to include advanced manufacturing and life sciences. These industrial policies, and reduced antitrust scrutiny, may provide opportunities for larger companies with dominant market positions.

The division of the global economy into blocs constrains private sector innovation and growth opportunities. A focus on self-reliance within blocs generates a weaker global economic rebound, and trade barriers between blocs force companies to reorient supply chains, fueling higher levels of inflation. This situation effectively shrinks the size of the global operating environment for companies to markets aligned with their home government.

In a Cold War II world, companies must contend with several key issues:

- ▶ **Revenue**
Extreme rivalry, trade barriers and elevated conflict risks between blocs constrain revenue growth opportunities.
- ▶ **Growth and investment**
M&A and other investment opportunities are confined to the markets aligned with a company's home-country government.
- ▶ **Operations and supply chain**
Companies must adjust their trade and supply chain relationships to operate within their home country's bloc, leading to increased costs in many cases.
- ▶ **Data and intellectual property**
Governments impose export controls on strategic technologies and their inputs, including critical minerals. The blocs develop different technology standards and regulations, reducing cross-border digital flows.
- ▶ **Human capital**
International mobility is confined to intra-bloc migration, limiting global talent pools.
- ▶ **Finance and tax**
Companies in geostrategic sectors are likely to receive low-cost government financing. Businesses in each bloc rely on different currencies for international transactions.
- ▶ **Reputation and compliance**
Regulatory and product standards differ by bloc, but the high risk of operating across blocs means companies are likely to comply with only one standard.

Chapter 3

Friends first

In a Friends first world, companies face a combination of challenges and opportunities within a complex geostrategic environment.



The Friends first scenario is a less-familiar geostrategic environment, somewhat reminiscent of the early 1900s. In this scenario, geopolitics is characterized by a complex set of alliances and affinity groupings, which are sometimes institutionalized by trade and investment agreements. Governments prioritize strategic supply chains within their alliances, and companies shift toward “friendshoring” key operations and supplies. Despite these divisions, geopolitical tensions are at manageable levels as governments focus on supporting domestic economic growth.

Policymaking is balanced between economic, security and sustainability rationales. Governments prioritize economic relationships with allied countries, but there are few restrictions on cross-border flows outside of a limited set of strategic sectors, including technology, energy and advanced manufacturing.

Liberalized policies and a greater focus on supply chain resilience and operational optimization within alliances drive a moderate global rebound. Friends first policies create technological hubs that support productivity growth within regional hubs, but overall trade barriers limit gains.

CEOs must balance sustainability imperatives and geopolitical pressures with market dynamics when making operational, supply chain and strategic decisions. The relative importance of these considerations varies by sector, but all companies find themselves in a more complicated geostrategic environment.

In a Friends first world, companies face both challenges and opportunities:

- ▶ **Revenue**
A moderate global economic rebound offers modest revenue growth opportunities to companies across sectors and geographies.
- ▶ **Growth and investment**
Investment opportunities are strong among markets friendly with companies' home governments amid a reorganization of global corporate footprints.
- ▶ **Operations and supply chain**
Sustainability is a key issue for governments, companies and consumers – and a strong rationale for companies' nearshoring and onshoring efforts.
- ▶ **Data and intellectual property**
Geopolitical competition forces the onshoring or friendshoring of technology supply chains, leading to divergent technologies and data management practices.
- ▶ **Human capital**
The intersection of technology, globalization, demographics and inequality creates different working environments within alliances and regional groupings.
- ▶ **Finance and tax**
Inflation and the cost of capital vary between markets and groupings of allies, while tariff rates fall in a more liberalized economic policy environment.
- ▶ **Reputation and compliance**
Stakeholder management creates a variety of upside and downside reputational risks. Compliance is complicated by overlapping trade and investment agreements.

Globalization lite

Companies would have a variety of opportunities associated with more open markets – as well as some lingering challenges – in a Globalization lite world.

The Globalization lite scenario presents a partial return to the 1990s and early 2000s. Low levels of geopolitical tensions create a more stable and predictable global operating environment for companies. Ideological blocs fade in significance as trade-driven partnerships become more important. International relations and problem solving for global issues, such as climate change, become more multilateral.

Economics considerations are given more weight than security rationales in policymaking. Market access and economic growth become more important than geopolitical considerations in governments' economic policy stance. As a result, governments shift away from the industrial policy and supply chain intervention of the early 2020s in all but the most strategic sectors, such as digital technology.

As global economic growth rebounds, alliances fade in relevance and policy constraints on globalization recede. Stronger globalization reduces trade barriers and revives a focus on technological progress, lowering inflation. Liberalization raises investment and productivity growth and improves living standards.

Companies are able to make operational, supply chain and strategic decisions based largely on market fundamentals – although political risks still shape corporate decision-making in the technology and energy sectors. But this new wave of globalization is moderated by stakeholder capitalism interests. Sustainability is an important consideration in supply chain and strategic decisions, due to both government regulations and stakeholder preference.

Companies would have a variety of opportunities – as well as lingering challenges – in a Globalization lite world:

- ▶ **Revenue**
Strong global economic performance provides significant revenue growth opportunities for many companies.
- ▶ **Growth and investment**
Significantly reduced barriers to cross-border trade and investment open new M&A and other opportunities for international companies.
- ▶ **Operations and supply chain**
The geopolitical environment supports efficient international supply chains, although sustainability considerations support some nearshoring.
- ▶ **Data and intellectual property**
Less draconian policies regarding the geostrategic nature of the technology sector accelerate digital and technological innovation.
- ▶ **Human capital**
Increasing innovation and disruption create entirely new lines of work, resulting in skills gaps becoming a bigger challenge.
- ▶ **Finance and tax**
Capital costs are low, given limited inflation and high growth. Policymakers impose a higher price for carbon in markets around the world.
- ▶ **Reputation and compliance**
Global coordination on standards reduces compliance costs. Renewed multilateralism leads to lower geopolitically driven reputational risks.

How CEOs can make their strategies geopolitically robust

CEOs and boards should take three steps to integrate scenario planning into their company strategy.

Any of the four above scenarios are plausible within five years, which complicates strategic planning. CEOs need to build more agility into their operations and strategy now, to be ready for whichever way globalization evolves. CEOs and boards should use scenario planning to update their company strategy. There are three steps to implementing such a **geostrategy**:

1. Enhance your understanding of the geopolitical environment

CEOs and boards should continue to monitor political risks and other megatrends for opportunities and challenges. They also need to watch geopolitics for signs of what the future of globalization will be. CEOs should proactively scan for these early warning indicators – and quickly shift their strategies accordingly. Various key events and trends in the coming years may indicate which scenario is emerging, including:

- ▶ Outcomes of elections and leadership transitions in key countries
- ▶ Shifts in foreign policy rhetoric or actions, particularly among G20 members
- ▶ The introduction or removal of tariffs and non-tariff trade barriers
- ▶ Degrees to which regional trade agreements are introduced or expanded
- ▶ Changes in the level of military spending and frequency of military exercises
- ▶ Shifts in global energy and food prices
- ▶ Levels of fragmentation in global technology standards

2. Questions every CEO should ask

CEOs, boards and strategy teams need to assess the business implications of each scenario now to prepare for divergent scenarios in the next five years. They should conduct both a bottom-up

assessment at the business unit and functional level and a top-down assessment at the corporate level. We see 10 key strategic questions that CEOs should ask themselves and their teams:

- ▶ How would our business model be impacted?
- ▶ What would be our future corporate structure, and how might the portfolio be reshaped?
- ▶ How would capital allocation priorities and the capital structure shift?
- ▶ How would changes in customer or consumer demand affect revenue growth?
- ▶ How would our M&A strategy be affected?
- ▶ How would operational and supplier footprints be affected?
- ▶ To what extent would cross-border sharing of technology, customer data and other IP be curtailed?
- ▶ To what extent would talent shortages exist?
- ▶ How would access to capital be affected?
- ▶ How extensive and complex would the sanctions or tariffs be that restrict relationships with individual countries or allied blocs?

3. Transform strategy to reflect a changing world

Once CEOs have the answers to the questions above, they need to change strategy – taking actions today to enable their company to mitigate the challenges and seize the opportunities that each scenario presents in the coming years.

In some cases, companies may need to transform supply chains to match evolving geopolitical realities. Other companies may need to better incorporate political risk into their acquisition and divestment strategies. And some companies may need to change their entire business model to position themselves for growth in an uncertain geopolitical environment. Companies should prioritize and immediately implement the strategic actions that would build the most agility and robustness across all four scenarios.

The role of companies in shaping the future of globalization

CEOs have a crucial role as advocates for the most optimistic of our scenarios, Globalization lite.

Globalization in the past few decades has brought extraordinary benefits to people across the world. In emerging markets, trade has helped lift billions out of poverty and enabled access to innovative goods and services. In developed markets, standards of living have continued to rise, and the range of goods and services has expanded. Citizens across the world have become more connected by shared ideas, international supply chains, global employers and travel.

There have also been significant downsides. Environmental damage has occurred, particularly where regulation is weak. Labor standards have not been upheld universally. And inequality has grown dramatically within countries when the benefits of globalization are not shared widely. Many governments are now taking action to address these, and other, downsides. And rightly so: globalization must work for all.

However, as our scenarios illustrate, the world is not just turning its back on the disadvantages of globalization. It is becoming increasingly clear, particularly as geopolitical tensions mount, that it is also turning its back on its advantages. This creates significant challenges for international companies. But, more importantly, the current trajectory of globalization now threatens global peace and prosperity.

CEOs and other international business leaders have a crucial role as advocates for the most optimistic of our scenarios, Globalization lite. Companies should continue to develop and leverage relationships with all stakeholders – including policymakers, investors, employees, customers and others – to support policies that spread the benefits of globalization more widely and promote sustainability and long-term value around the world.

Environmental and labor standards should be strong, supply chains need to be resilient to shocks, economic gains should be widely shared, and national security must be protected. But a slide toward protectionism, self-reliance and economic (or even military) conflict will challenge the attainment of all these goals. The open movement of goods, capital, ideas and people across borders makes the world a more harmonious and prosperous place. CEOs should fight for Globalization lite – a better working world than the one in which they operate today.

How EY teams can help

Geostrategic Business Group

Political risks are creating both challenges and opportunities for global organizations, creating an imperative to develop more strategic approaches to managing political risk. The Geostrategic Business Group helps companies to do this by translating geopolitical insights into business strategy.

[Read more](#)

Strategy consulting

EY-Parthenon professionals recognize that CEOs and business leaders are tasked with achieving maximum value for their organizations' stakeholders in this transformative age. We challenge assumptions to design and deliver strategies that help improve profitability and long-term value.

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Summary

CEOs and boards need to prepare now for the future of globalization. Managing the uncertainty over how geopolitics will evolve in the next five years is a challenge. But CEOs and boards cannot wait for clarity before setting their future strategy. Rather, they need to act now to make strategic decisions that position their company to flourish during the turbulent times ahead.

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