



# 2022 Outlook for Global Politics



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## United Kingdom Political Outlook

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*By David Laws, Adviser to GK,  
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Whatever 2022 is going to bring for UK politics and economics, it seems unlikely to be dull!

### What are the five big things to look at for in the year ahead?

Inevitably, we must start by considering the current leadership crisis at the top of the government. Boris Johnson, who in 2019 looked like a secure PM with a large parliamentary majority is now odds on favourite at the bookies to be ejected from 10 Downing Street before the year is out.

Conservative MPs have always been privately dismissive of the PM's grip on his government's policy agenda, and sceptical about his ideological "bearings". But in the past, these MPs saw their leader as an election winner - and that has now all changed. Last year saw two enormous parliamentary by-election losses for the Conservatives in formerly rock-solid seats. This year has brought stories of innumerable lockdown parties in 10 Downing Street, and, perhaps worse than the parties themselves, there has been a strong sense that Boris Johnson has failed to be honest with his MPs and the public over these abuses.

So, the first issue to consider is whether **Boris will survive 2022**, and who might replace him. At present, the PM's position looks extraordinarily weak. In a highly unusual move, almost the entire Conservative group in Scotland have called publicly for him to resign. The chances are perhaps now 70% that he will face a leadership election by June, and in the event of such a vote many suspect that the PM would fail to even make it into a second round of voting.

Only two other senior Conservatives look in serious contention if Boris is to be replaced - the Chancellor, Rishi Sunak, and the Foreign Secretary, Liz Truss. Of these, Sunak is currently polling better with the public (not an unimportant consideration for Conservative MPs) and is arguably more impressive. But Liz Truss is offering Conservative MPs more "clear blue water" in arguing more powerfully than the tax raising Chancellor for a low tax, free market, small state, agenda. If there is a leadership election, expect a serious debate about the future policy direction in the UK. "Pragmatic Boosterism" would be out. Ideology would be back in.

As the Conservative Party focuses on its leadership, the second big issue is how the **Labour opposition** is doing. Could Labour really be contenders for power in 2023 or 2024? At present, the Labour Party has to be taken seriously again. Keir Starmer has started to assemble around him a much more credible team, including his impressive Shadow Chancellor, Rachel Reeves. Labour no longer looks unfit to govern. In April, **inflation** is expected to surge towards 7%, just as taxes are hiked across the board - with frozen personal allowances, and higher national insurance contributions. This **severe cost of living squeeze** will deliver an open goal for Labour, if it can effectively exploit the government's uncomfortable predicament. The extent to which Labour can put the government on the backfoot on squeezed living standards will be a key test of whether Labour can win next time. Watch out too for the **Liberal Democrats**. Their poll ratings are edging up and they secured both of the stunning by-election victories in 2021. If the Lib Dems start to perform, that could cost the Conservatives more seats in 2023/24 - threatening a pincer movement on both the red and blue "walls".

The third key area to watch in 2022 is the **economy**. The last Budget included downward revisions to future borrowing, because of high GDP growth in 2021, and expectations of continued high growth in 2022. But if the cost of living squeeze causes consumers to rein in spending, this could put the brakes on growth in 2022. That would force the Chancellor to revise up his forecasts of public sector borrowing, and it would wipe out the scope for politically convenient tax cuts in advance of the next election. Has the big bounce back seen in 2021 merely "borrowed" growth from 2022, or will robust growth continue? This is a hugely important issue for the UK.

The fourth area to watch in 2022 will be **UK health services**. The pandemic has put the NHS under massive pressure, and hospital waiting lists and waiting times have sky-rocketed. In "normal" times this would by itself have caused a political crisis, but the focus on Covid has distracted attention away from the non-Covid health challenges facing the UK. Is the current funding settlement enough? Can we get greater value for money from the NHS? What is the role of the private sector? All these are key issues for 2022.

The fifth and final key issue to watch for in 2022 is **levelling up** and the **opportunity agenda**. The government is committed to levelling up the North and providing greater opportunity for those from poorer backgrounds. But the disadvantaged attainment gap in schools is now widening, and the Chancellor will be unenthusiastic about providing more money to fund Michael Gove's levelling up plans. Will "levelling up" prove to be as vacuous as Cameron's "Big Society"? And if so, will there be a large political price to pay?

These are key issues to look out for in 2022, as well as how the government starts to tackle the big, longer term, challenges of tackling climate change and delivering a competitive "Post Brexit" economy."

## European Union Political Outlook

**The European Union's far reaching regulatory ambitions are set to reach into the world of investment in 2022 through multiple policy avenues.**

With the legislative processes of the **Digital Services Act** and **Digital Markets Act** coming to a close, the EU will be turning its attention to addressing other current trends in **technology**. From its 2022 work plan, the Commission aims to shape the gig economy through its Directive on Improving Working Conditions in Platform Work, plant the seeds for homegrown semiconductor manufacturing in Europe with the so-called **EU Chips Act**, and establish a pan-European integrated instant payments system. At the core of this is the objective of **European strategic autonomy** which envisages both cutting reliance on foreign industry and a boom in European enterprise, both of which are important trends to follow wherever investment is concerned.

No doubt the most powerful tool at the EU's disposal in penalising economic actors within the single market is its **competition policy**, the application of which is dictated by the infamous 1997 notice on market definition. 2022 foresees the revision of

this pillar of antitrust regulation, shifting the EU's perception of existing markets to include the new world of digitalisation to tackle phenomena such as two- or multi-sided platforms alongside revising other key tools for analysing potential breaches of competition rules such as the SSNIP test. **Foreign direct investment** is also back in the firing line, with the European Parliament currently debating whether to adopt a 2021 EU Commission proposal for a **Regulation on Foreign Subsidies Distorting the Internal Market**, giving EU Competition authorities the power to investigate, at their own discretion, foreign subsidies granted to companies operating in the EU that may distort the EU internal market. We can also anticipate a renewed push from Germany's new Traffic Light Coalition for more aggressive policing of dominance in EU merger control to prevent so-called 'killer acquisitions', even forcing the breaking up of dominant actors in the absence of suspected abusive behaviour.

In the field of energy, the Commission is set to continue pushing the block towards its **Green Deal targets**. Plans are in place to put forward a regulatory framework proposal for the certification of carbon removals (the EU Carbon Removal Certificate) thus providing a much-needed framework for



## Eastern European Political Outlook

investment into the nascent field of carbon removal technologies, representing an opportunity for green investment and a factor to consider for the future of fossil fuel-dependent industries. Special attention will also be paid to the wind and solar PV industries, the largest market in the EU, with EU Commission Communications set to be issued addressing barriers to growth, and a clear intention shown by the Commission to catalyse private investment to support the gradual withdrawal of government subsidies. Notably, the **EU Green Bond Standard** as part of the **EU Green Deal Investment Plan** is currently in the preparatory stages and sets out to better direct financial and capital flows towards green investments.

Last but certainly not least, the far-reaching realm of **ESG** will be subject to a veritable boom in policy with a whole series of proposals expected to rock the boat for investors in 2022, reshaping the prism of risks and opportunities in the world of finance. The **Corporate Sustainable Reporting Directive** is an absolute game changer in this regard, intended to apply the **EU's Taxonomy for Sustainable**

**Activities**; it will revise existing EU Directives on audit, accounting and transparency. With Member States expected to transpose the Directive into national law by the end of the year, we can expect a litany of national interpretations which will only muddy the waters for companies who must ensure compliance in their reporting by early 2023. On top of this, a series of six delegated acts will come into force in August and November 2022 entailing further obligations on sustainable procedures and investment advice obligations for financial undertakings such as advisers, asset managers and insurers. Meanwhile, initiatives including the **EU Ecolabel for Retail Financial Products**, the ESG Solvency II Insurance Review and the EU Prudential Banking Package, are all still in the pipeline. It is also worth highlighting the importance of the current French Presidency of the Council of the EU in driving ESG, and the 2022 priorities put forward by France's Autorité des Marchés Financiers to leverage this influence and make progress in the areas of retail investment, sustainable finance, and the further Europeanisation of ESG.

Assuming pandemic-related curbs on activity abate, Eastern European economies can look forward to 2022 with cautious optimism and should remain buoyant. The tech scene will continue to mature, with the region increasingly being noticed for its well-funded start-ups and exceptional talent (albeit challenging to attract). The region remains an attractive destination for back-office operations. However, throughout Eastern Europe, inflation is likely to remain elevated throughout 2022, with labour constraints pushing wage growth higher even as supply-chain effects begin to subside. The region would be heavily impacted by a worsening of the global economic situation, with high deficits in many Eastern European countries making them vulnerable to external financing shocks. Risks emerging from international conflict are also at the forefront, with the increased likelihood of further instability caused by hybrid warfare, as well as lower likelihood but higher impact threats of armed conflict.

The region may also be well-placed to benefit from the shortening of supply chains, and nearshoring, especially in key infrastructure and critical goods for Europe. Central Europe will continue to develop as a business process outsourcing hub, from the European financial sector, as well as increasingly from the US tech sector, where companies see value in terms of the quality of staff, and the ability to operate around the clock.

**The outcome of the Russia–NATO talks.** The threat of an invasion is already serving its purpose for Russia,

and a full-scale military conflict in Ukraine is unlikely, but it remains a risk if the talks collapse. As we have seen in recent weeks, new hybrid attacks on Poland and Baltic states from Belarus and Russia remain a concern. Linked to the Russia threat is uncertainty in **energy policy**. Will Nord Stream 2 be activated? Will the Baltic Pipe connecting Norway and Poland be completed on time in October? Will Ukrainian hydrogen offer the prospect of decreased reliance on Russian gas? Will planned tenders for offshore wind farms in Poland and Lithuania favour national incumbents or open those countries' energy sectors to foreign expertise, or both?

Further afield, Eastern Europe is also keen to address what is next for **China** – will the EU show resolve against China's economic coercion of Lithuania? This will be a key test case for EU unity against aggressive Chinese diplomacy. **Poland versus the EU** – Will Poland's relations with the EU continue to worsen, or can the dispute be resolved (and EU funds released). The Polish ruling coalition is increasingly disheartened and divided, and questions are being raised about whether the government can survive until the next parliamentary election, planned for November 2023. This Spring we also have the **Hungarian parliamentary elections in April**. The united opposition will pose the first credible challenge to Orban in recent memory. A new government in the country would likely pursue a return to democratic norms and attempt to dismantle the clientelism that has come to permeate much of the economy.

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## United States Political Outlook

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The United States, as with other major economies, will hope that 2022 shows strong signs of economic recovery following the global pandemic. The US has faced the challenge of global pandemic and associated economic difficulty, including state by state restrictions on society and a federal closure of some international travel. At the same time, the US saw change in federal government, following the election of President Biden, which in itself, opened the issue of election integrity; together with increased international tension, especially with Russia.

In 2022 the political temperature will be tested in a series of elections this year, including the **Congressional midterms** - we could see the balance of power in D.C shift in what will be the first elections to Congress since the election of President Biden. New congressional districts will also have a part to play.

Power could also shift in the states: 36 governors stand for election in addition to state legislatures. States for the large part determine things like access to voting, Covid restrictions, etc, so will have a direct impact on people's day to day lives. Candidates are also contending State Secretary of State elections, the chief elections officials in the states; frontline

of the effort to undermine the American electoral system - 18 candidates currently running support publicly the Trump "big lie."

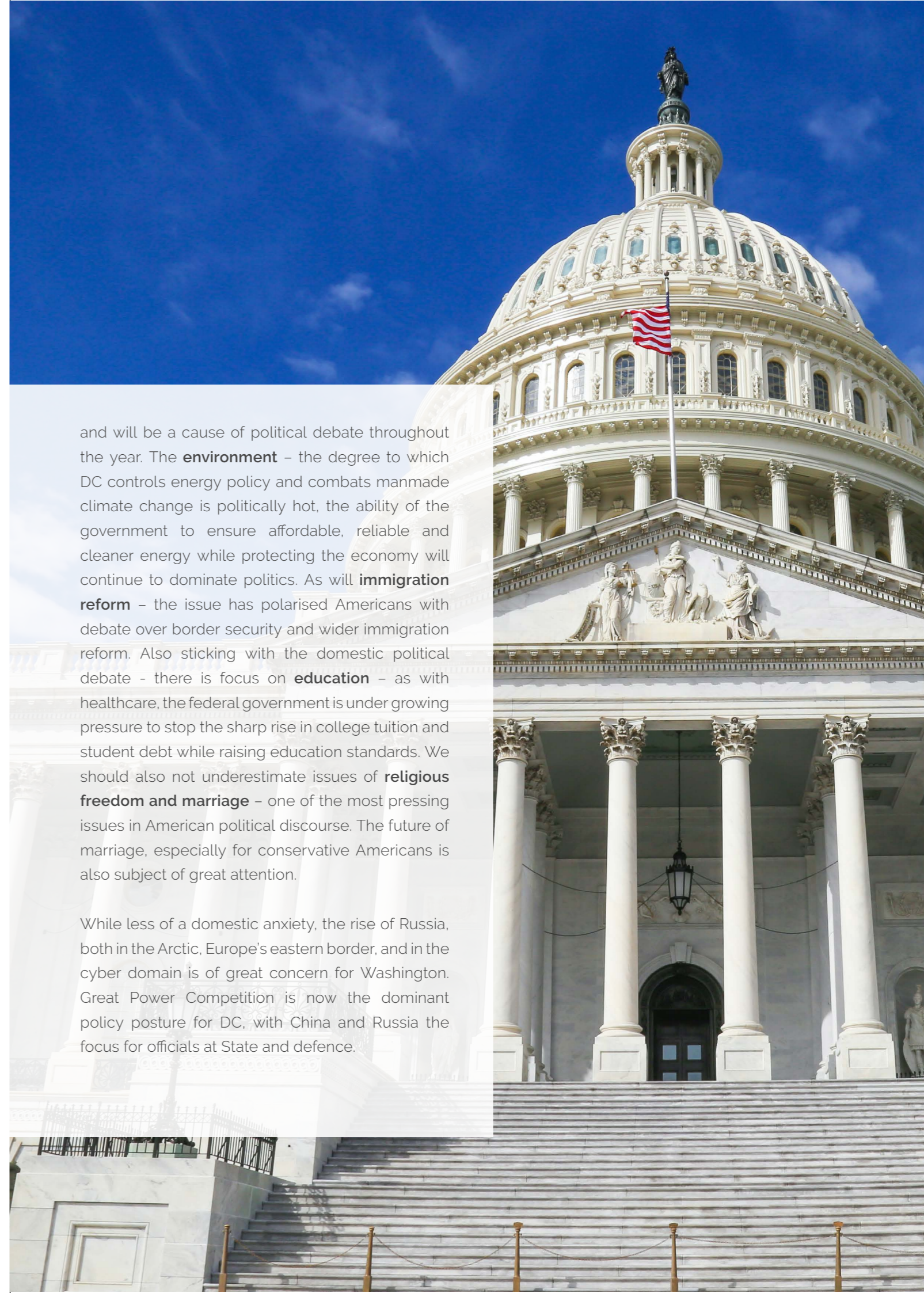
How **Trump-backed candidates** fare will be an important barometer for his move on the White House in 2024 - Trump is endorsing all over and at all electoral levels - totally unprecedented for an American president who has left office. In many cases he is doing so in races where his endorsed candidate can never win. His post-election score card, and those candidates who are successful, will have a big impact.

That leads to the question of where next for the GOP and which faction has the momentum moving forward? Do people like Liz Cheney make it through successfully or will Nikki Haley make more successful play? Do they have a home in the GOP? 2022 is the inflection point for the future direction of the GOP and the American Centre Right.

Leaving elections aside, domestic differences on how best to reform **healthcare** remain - wide overhaul of the healthcare system, started most recently under President Obama, including a move to a more European/Canadian model with greater government control, is resisted by many Republicans

and will be a cause of political debate throughout the year. The **environment** - the degree to which DC controls energy policy and combats manmade climate change is politically hot, the ability of the government to ensure affordable, reliable and cleaner energy while protecting the economy will continue to dominate politics. As will **immigration reform** - the issue has polarised Americans with debate over border security and wider immigration reform. Also sticking with the domestic political debate - there is focus on **education** - as with healthcare, the federal government is under growing pressure to stop the sharp rise in college tuition and student debt while raising education standards. We should also not underestimate issues of **religious freedom and marriage** - one of the most pressing issues in American political discourse. The future of marriage, especially for conservative Americans is also subject of great attention.

While less of a domestic anxiety, the rise of Russia, both in the Arctic, Europe's eastern border, and in the cyber domain is of great concern for Washington. Great Power Competition is now the dominant policy posture for DC, with China and Russia the focus for officials at State and defence.





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