Major Country Risk Developments
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By Byron Shoulton

Overview

The global economy will attempt some recalibration- under threat of rising inflation, food supply shortages, a global energy crunch, rising interest rates, war in Europe, and continued supply chain disruptions. There are reasons for caution [despite a desire for post-pandemic optimism] as warning signs, including slumping equity markets, rising global tensions, and business uncertainty- contribute to waning consumer confidence as recession fears grow. Nonetheless, continued global demand for essential goods, including energy, food supplies, raw materials, manufacturing components, industrial supplies and new technology - support the outlook for a somewhat more sustainable medium-term economic growth path - despite current challenges. The opposite view holds that post-pandemic headwinds including rising nationalism, protectionism, war, price spikes and higher borrowing costs amidst aggressive central bank tightening – are reasons why a global economic slowdown is inevitable. Food insecurity weakened emerging market currencies, and high debt servicing costs- add to doubts that the global economy can avoid a recession in 2023-24. We continue to measure and assess whether an expected mild global slowdown will be short lived.

U.S. consumers are showing mixed signals toward current policies, reflected by slower spending, a dip in consumer sentiment, and higher savings rate; even while travel, leisure, and vacation activity picked up pace. High U.S. gasoline, diesel and aviation fuel prices will dampen consumer spending, as rising fuel costs eat into disposable income and profits. Even with recent signs of crude prices cooling off a bit, the outlook is for global crude to remain elevated, averaging above $70-75 per barrel over the next 12 months.

While the U.S. construction sector appears robust, the availability of new homes does not meet current high demand. Higher mortgage rates [up from 3% at the beginning of the year to over 5% currently], will gradually help moderate recent red-hot home buying activity. Rising interest rates and shrinking available housing stocks drove record-high house prices, even higher. The result: many first-time home buyers will face much higher barriers to entry costs-over the next few years. One remaining solid indicator is U.S. employment (the unemployment rate remains at a low 3.6%); as the economy added 372,000 jobs in June. Wage gains have picked-up pace over the past year and employers' ability to fill job openings have become increasingly more difficult. Despite a few recent announcements of pending layoffs in technology driven sectors, June's strong job growth provides further evidence that the labor market remains tight. Pressure on employers for higher wages will remain elevated as the desperate search for workers continue.

The U.S. dollar exchange rate has remained strong against most currencies - making it cheaper for U.S. imports but more expensive for foreigners to buy U.S. goods and to service U.S. dollar-denominated debt. Talk of the U.S. cutting back tariffs on China – as a way to ease inflationary pressures -won't be enough to accomplish any meaningful reduction in inflation. Besides, cutting tariffs on China which were meant to influence a change in its behavior – in hopes of heading-off inflation - is bad optics and poor policy. Tariffs should be removed if it's believed to be in the best interest of the U.S. in its relationship with China.

Europe

The outlook for European recovery has been hit hard by uncertainty caused by the ongoing Ukraine-Russia war and the sanctions which it birthed. High European dependence on Russian oil and gas supplies will dominate the scene for the remainder of 2022 and into 2023. The main concern is Russian willingness to cut off gas supplies to punish European support for Ukraine in the ongoing war. The uncertainty is having a negative impact on economic activity across the region. Businesses and households do not yet have adequate alternative replacement supplies for Russian gas - making it difficult to plan ahead. Meanwhile, there appears to be sufficient replacement capacity for approximately 50% of Russian crude oil supplies to Europe by year-end 2022. However, that's not the case for Europe's vast natural gas needs (used for home heating, electricity)-approximately 65%-70% of which had been supplied by Russia before the war. The shortfall is forcing a significant uptick in imports of coal and liquified natural gas (LNG) into Europe to help prepare for the loss of Russian supplies. Coal and LNG prices are up 60% from 2020-21 levels.

In addition, higher energy and raw material costs have undercut European consumer and business confidence; crimping spending as disposable incomes are eaten up by high energy and rising food and raw material costs. Furthermore, European manufacturing remains subdued due to shortages of components (imported), a tight labor market, and persistent price pressures. Combined, these trends will likely restrain regional production and dampen new corporate investment spending over the next 12 months. As a result, European employment growth will likely take a hit over the next year. European labor relations are being tested with strikes, including a hit to oil production in Norway, reducing output from Europe's second-biggest gas supplier after Russia. This, at a time when energy markets are already squeezed.

More emerging markets have signaled growing concerns over rising food prices and warnings of supply shortages. Hoarding of supplies are on the rise as nationalistic instincts have triggered a natural response to provide for and protect supplies of essential goods to meet the needs of national populations. Governments will increasingly be forced to take steps to ensure adequate supplies of food, energy, medicine and other essential goods are on hand for domestic consumption. Some countries, including India have banned exports of grain to safeguard adequate domestic supplies are on hand. Some countries lack the ability to pay for that assurance. They must seek to secure sources of supplies via credit lines, concessionary lending facilities and/or help from international organizations such as the IMF,

the World Bank, the World Food Program and regional economic developments agencies.

In the case of wheat shipments from Ukraine, one of the world's leading producers, Russian forces have been accused of preventing large quantities of Ukrainian grain [currently stockpiled in silos] from being shipped out of Ukraine. Thus, depriving millions of consumers in various countries from having access to adequate supplies of wheat; and the Ukrainians from earning valuable revenue that they depend on. Many Ukrainian farmers have also charged Russian forces with wholesale theft of their crops from warehouses. With little sign of movement toward an early resolution of the conflict between Russia and Ukraine and with the NATO alliance reaffirming its support for Ukraine and pledging to maintain that support for "as long as it takes", markets are gearing up for an extended period of high global energy, food, and commodity prices. In some cases, supplies will be insufficient with crushing consequences for the most vulnerable populations.

Global tensions will remain elevated especially now that NATO has indicated it will extend membership to Ukraine, Finland and Sweden. In addition, NATO is beefing up military spending to levels not seen since the end of the Cold War - as it acknowledges a renewed Russian threat to European peace and global security. NATO is returning to its founding mission of providing collective defense for member countries and maintaining regional intelligence and military preparedness – but at a new level. All the while maintaining support and providing military supplies to Ukraine to fight Russia's invasion. The alliance appears to have rediscovered why it exists. Next comes the hard part: achieving a ceasefire in Ukraine and reaching agreement to end the brutal, unprovoked war on a neighbor. The West's sanctions against Russia so far have limited- but not the full -intended effects on Russia. Russia continues to sell its crude globally [although at huge discounts] and continues to earn ample oil revenues. The Russian rouble has rebounded [following an initial plunge after the invasion] and recently hit a seven-year high against the dollar. The U.S. and its G7 partners agreed to pursue further measures to restrict trade with Russia and want to put a price cap on purchases of Russian oil to ease inflationary pressures and lower Russia's revenues.

Argentina

According to the national statistics institute, Argentina's current-account posted a deficit of $1.1 billion (0.2% of full year GDP), in the 1Q-22, a turnaround from a surplus of $473 million in the year-earlier period. Front-loaded IMF credits paved the way for a moderate financial account surplus of $1.6 billion, as well as a buildup of reserve assets ($3.2 billion) by the central bank. However, more recent data show that the first quarter reserves cushion has been almost fully wiped out already, leaving the central bank with little firepower to mitigate depreciation pressures on the peso.

The latest data indicate that Argentina's external position will benefit less from the commodity boom than initially anticipated. The trade surplus narrowed by almost one-fifth in year-on-year terms, to $2.6 billion, despite extremely favorable terms of trade. This result partly reflects the fact that the volume of agro-industrial exports, which typically account for more than a third of all exports, fell by 16% as drought conditions hit farm output. By contrast, there was double- digit growth in import volumes across almost all categories, owing to relatively firm domestic demand and stockpiling of key inputs (especially fuel). The trade account is unlikely to show much improvement over the rest of 2022. The outlook for exports will be dampened by continued weakness in agricultural output, but external demand appears to be holding firm.

The central bank (BCRA) has tightened access to foreign exchange on the official market in order to curb import growth. However, that move has only caused the black-market premium for hard currency to rise. We expect import demand to ease in coming months, but that will be as a result of tighter macro-economic policy, rather than new currency controls.

The recent tightening of foreign exchange regulations on Argentine importers is causing unease among local companies importing raw materials and businesses that rely on imported inputs to produce a variety of products. Sectors potentially impacted include: agro-business, auto producers, mining industry, oil & gas, iron, steel, manufacturers of machinery, tractors, trucks, and high-tech devices -among others. Among other goals, Argentina's government is attempting to meet a number of IMF targets for the next review by the Fund of the country's progress in economic management and policies that could eventually help produce sustained growth going forward. Among the IMF targets is to show improvement in growing the country's foreign exchange reserves to help cushion a fiscal or financial crisis. To that extent, the Argentine central bank has been on a U.S. dollar buying spree, purchasing $1 billion over a three-day period in late June – as it beefs up its official FX reserves ahead of the IMF review.

Industrialists, organized farming, business lobbies, and manufacturing groups are opposed to government's hoarding of dollars [while many are forced to maintain foreign currency accounts outside Argentina as a safety measure]. The private sector is wary of government interference in the economy and remain sensitive to the effects of foreign exchange controls on production, and not being able to pay foreign suppliers on time. Argentine companies have had a long history of the devastating effects such government policies have on businesses. Companies know they must take alternative protective steps to safeguard against losses caused by government regulations and particularly invasive FX allocation schemes - which dole out foreign currency -usually in small, inadequate quantities- after extended delays. Businesses fear losing markets and customers because of government's bureaucratic interventions.

The current situation in Argentina is shaping up for just such a scenario. Companies operating in Argentina have been placed into categories which determine the speed with which they will be allocated dollars to pay for imports. In some cases, waiting periods of six months are envisioned; and in other situations, importers could see waiting periods to access official dollars extended to a full year. Argentine authorities are urging companies operating in Argentina to seek one-year financing terms from their foreign suppliers. If pursued, the upshot of this policy will be long delays in payments to foreign suppliers. The response will be a cut in shipments by suppliers to Argentine customers – until payments are received. The eventual result: a standstill in production, massive layoffs, protests in the streets. And more foreign suppliers unwilling to extend credit into this market -joining many others that previously withdrew from selling into this market. Some suppliers will sell to Argentine importers on cash only terms, or via letters of credit; while others will sell if payments from sources outside the country can be arranged.

Infighting within the sitting coalition government [between President Alberto Fernandez on the one hand and his vice president Cristina Fernandez- Kirchner and her followers] – led to the recent ousting of former Economy Minister Martin Guzman. Mr. Guzman, a moderate, had come under heavy criticism from the populist flank of the ruling Peronist coalition-led by Cristina Fernandez – for his management of macroeconomic policy. President Alberto Fernandez named Silvina Batakis, a high-ranking official of the Ministry of the Interior and an acolyte of the influential vice-president as the new economy minister, replacing Mr. Guzman.

With President Fernandez' political capital dwindling he will remain susceptible to pressures from left-wing hardliners in the ruling coalition. The so called-Kirchnerists ousted Mr. Guzman, who negotiated Argentina's latest IMF deal, for implementing belt-tightening measures that have failed to bring inflation under control and have left a significant share of the population in socioeconomic distress. Mr. Guzman stood by his economic management policies and warned of the need for an agreement within the ruling coalition to ensure that his successor has broad-based support to administer policy freely.

The new Economy Minister Ms. Batakis does seem to have backing among diverse Peronist factions; her appointment was the culmination of intense negotiations between the president, vice president and the leader of the Chamber of Deputies (the lower house). Nonetheless, Ms. Batakis will face a trial by fire as she attempts to address runaway inflation, prevent further ongoing sovereign bonds sell-off and be able to guide Argentina's economic recovery through increasingly challenging global conditions.

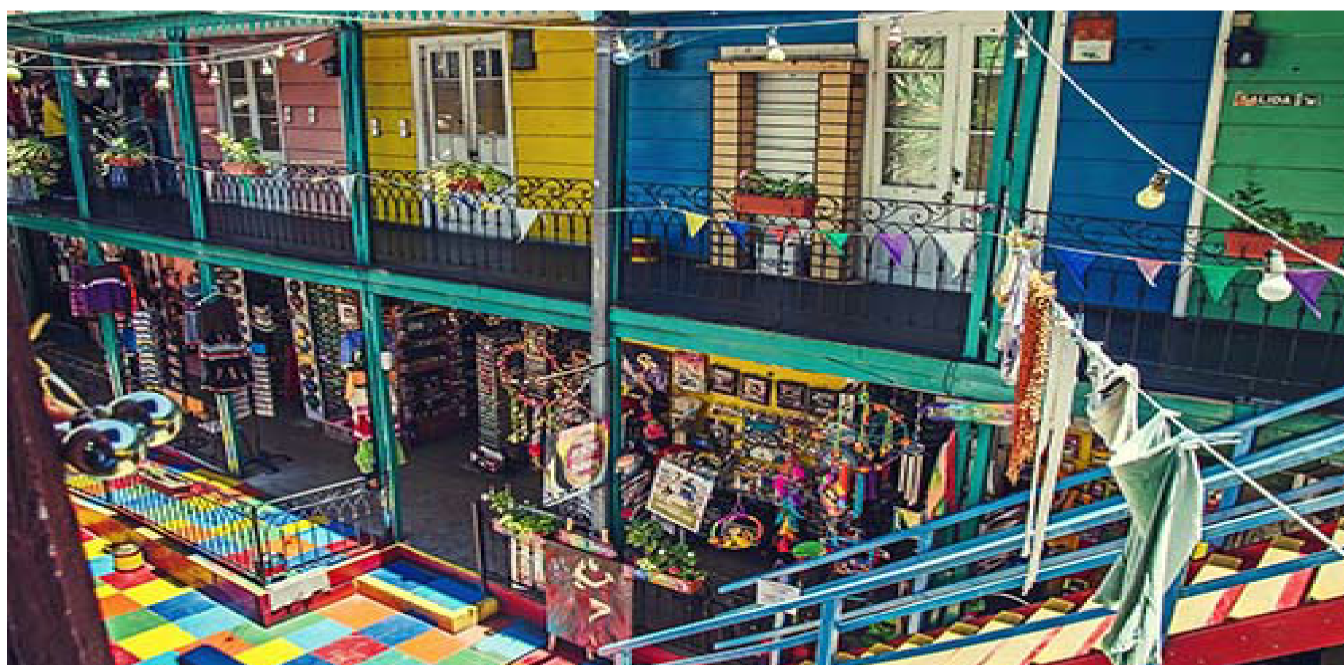
Ms. Batakis's track record suggests that she will pursue an aggressive tax-and-spend policy. During her tenure at the interior ministry, she agreed to a new fiscal pact with provincial governments that allow them to levy new taxes. Similarly, when she served as economy minister in the province of Buenos Aires in 2011-15, she raised property and inheritance taxes in order to finance spending measures. Given

the ruling party's minority position in Congress, Ms. Bantakis will have to rely on executive action to advance her policy aims. Measures are likely to include export tax rises and ad hoc budgetary modifications to lift spending. The new minister will likely advocate for further regulatory tightening, with a focus on prices and currency controls.

While Ms. Batakis is likely to reiterate a commitment to Argentina's IMF program, she will face an uphill battle in gaining investor confidence. This will prompt additional volatility in currency and financial markets. Moreover, there is a growing risk that unchecked macroeconomic imbalances will likely derail the IMF deal and plunge the country into another economic crisis.

The country's primary income deficit narrowed by 14% year-on-year, to $2.2 billion. The outturn reflects multiple factors, including restrictions on profit repatriation by foreign companies, as well as lower interest payments (following debt restructurings by both the government and the private sector). Although the financial account posted a moderate surplus of $1.6 billion in Q1-22 – a turnaround from a deficit of $74 million in the year earlier period- it will remain a cause for concern. Even with net foreign direct investment (FDI) rising to $3.2 billion in the best first -quarter performance since 2017, the positive FDI inflows could not compensate for net outflows of portfolio capital and "other investments" (which include currency, deposits and commercial advances) which totaled $5.1 billion. Against this backdrop, the financial accounts surplus and the accumulation of reserve assets can be traced back entirely to net credit issuance by the IMF (amounting to $6.2 billion).

This is problematic for Argentina, because the IMF front-loaded disbursements of fresh credits; all additional outlays from the Fund in the coming quarters will be used to pay off debts to the institution itself. The latest data on international reserves (June 27th) suggest that Argentina has already run down its fresh IMF funds amid a widening energy trade deficit and strong capital flight pressures. Although some financing from other bilateral and multilateral sources are expected to materialize over the coming months, these are likely to be modest in scope.



The latest data suggest that the risk of a sharp peso adjustment is rising rapidly. We are likely to see a balance on the current account for the full-year 2022. This is a poor result, given the highly favorable environment for soft-commodity prices. The deterioration in the current account is especially concerning for a country like Argentina, which lacks access to international capital markets. Although policymakers will continue to use currency controls to ease pressures on reserves, these measures are unlikely to be effective (insofar as they lift the black-market premium for foreign exchange) and will prove outright counterproductive. We believe that the only feasible way to allay Argentine balance-of-payments risk is for the government to tighten fiscal and monetary policy more significantly, so as to compress domestic demand and improve confidence in the policy mix. The forecasts assume some progress on the tightening front. However, we cannot rule out the possibility that reserves continue on a downward spiral, which would ultimately pave the way for a new currency crisis.

As Argentina gears up for elections in 2023, the hard-fought agreement with the IMF to restructure $45 billion in debt owed will take center stage. Opponents of any agreement with the IMF – [led by Vice President Cristina Fernandez and Peronist hardliners] will use the election campaign to demonize President Alberto Fernandez - on the grounds that he agreed to work within the IMF framework.

Chile

The Ministry of Finance agreed to sell U.S.$5 billion (1.6% of GDP) over the next 60 days [$200 million per day] in an effort to stem currency depreciation. The Chilean peso has come under pressure recently following aggressive monetary tightening in the U.S., a slump in copper prices (reflecting jitters over global growth), and elevated political and policy uncertainty ahead of the country's referendum to ratify the proposed new constitution, scheduled for September 4, 2022.

The move marks a significant commitment of resources as the government seeks to offset currency volatility, especially ahead of the referendum on the newly drafted constitution. However, the peso is expected to continue to depreciate in the coming weeks as external and domestic factors weigh on the economy. The Finance Ministry's announcement came as the peso approached Ps920:US$1. The government will finance the foreign-exchange intervention using cash surplus, meaning that this move will not affect Chile's fiscal accounts or foreign reserves, which stands at $46.5 billion.

The Chilean authorities say the scale and duration of the intervention could change depending on whether there were "significant changes in market or fiscal conditions". The currency weakening can be attributed to the U.S. Fed's recent aggressive tightening and front-loaded rate increases than was previously anticipated. Fears of a downturn in the U.S., on top of China's recent Covid-related shutdown, have filtered through into a pronounced slump in copper prices in recent weeks. Chile is among the world's top copper producers. Copper accounted for 58% of Chile's exports in 2021. An upcoming tax reform initiative and uncertainties over the upcoming referendum on

the new constitution and future economic policies, have helped to further push down the value of the peso.

The government's intervention in the foreign-exchange markets will allow the central bank of Chile to conserve its foreign-exchange reserves for use in the event of adverse financial conditions. To augment its firepower, the central bank announced on June 25th that it has joined the Renminbi Liquidity Arrangement [RMBLA] with the Bank of International Settlements (BIS). The arrangement allows the Chilean Central Bank (BCCh) to access liquidity in both renminbi and U.S. dollars, although to gain access to the facility the BCCh must contribute at least 15 billion renminbi to a common reserve pool (other RMBLA members include the central banks of Indonesia, Malaysia, Hong Kong, Singapore and China).

Chile recently became the first country to enter a short-term liquidity line (SLL) with the IMF, giving the BCCh access to a credit line worth $3.5 billion (1.1% of GDP). The expectation is that the BCCh will treat these facilities as precautionary and will not tap them any time soon.

The government's intervention in the foreign exchange markets will help to smooth currency volatility, but it is not expected to reverse the depreciation seen in recent weeks. The central bank is expected to raise its policy interest rates by 50 basis points at its July 13th meeting to 9.5%. Additional rate hikes have not been entirely ruled out, especially as the steep peso depreciation will push inflation up in the coming months.

Ecuador

The risk of the sitting president, Guillermo Lasso becoming a lame-duck president has risen significantly in recent months. The most serious threat to political stability and governability stems from increasing hostility of the National Assembly (the legislature) to Lasso's administration. Another major risk is social unrest, as reflected in ongoing anti-government protests that broke out on June 13th.

There are growing sentiments that Lasso could be forced to call early elections or be eventually ousted by Congress. The next elections are not due until 2025. The government is hugely unpopular.

Mr. Lasso survived an impeachment attempt in late June – after the opposition only managed to secure 80 of the 92 votes needed for his ouster. Nevertheless, hostilities with the opposition and a fraught social situation will continue to threaten the president's standing. Lasso emerges from the impeachment trial politically weakened and facing pressing challenges. Crucially, he will have to contend with the country's large indigenous organization (Conaie). The latest wave of unrest, which has left six people dead, has already lasted longer than the destabilizing protests seen in 2019. In a troubling development, talks between the government and the head of Conaie broke down shortly before the impeachment vote. As demonstrations drag on, Mr. Lasso will come under increasing pressure to either yield to demands (which would compromise the government's policy agenda) or take a harder line against protesters (and risk inflaming tensions with the opposition even further).

Mr. Lasso's economic policy will be to continue macro-economic adjustments to reduce default risk and comply with the 27-month extended fund facility (EFF) agreement with the IMF that was signed in 2020 under the former president, Lenin Moreno (2017-21). In September the Lasso administration agreed to continue with the EFF, reflecting a commitment to the deal's original objectives: putting Ecuador's public finances on a stable trajectory, improving fiscal transparency, and strengthening the independence of the central bank.

The economy is projected to continue returning towards pre-pandemic levels in 2022 but will fall short of a full recovery. Growth was relatively weak in 2021 at 4%, following a 7.8% contraction in 2020. However, activity was much stronger than expected in the first quarter of this year. Along with the boom in oil prices, this has led upward revision of real GDP growth forecast for 2022, to 3.5%. Consumption growth is expected to decelerate to 3.8% but remains strong – driven by higher salaries (on the back of a substantial minimum wage increase) and a partial recovery in employment.

Furthermore, Ecuador's oil windfall will likely spur growth via high government revenue and incomes. Fixed investment is expected to expand by 4.2% this year (similar to 2021), but to remain below its pre-pandemic level.

Promoting international trade and increasing foreign investment are among the Lasso administration's policy priorities. Having already reduced tariffs, the government will seek to ease bureaucratic procedures while strengthening ties with commercial partners. The government hopes that the tariff cuts will improve the chances of negotiating a free-trade agreement (FTA) with the U.S., acceding to the Pacific Alliance and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and securing agreements with other major export markets, notably Mexico. Signing an FTA with the U.S. remains a longer-term goal at best.

Ecuador's dollarization regime [use of U.S. dollar as legal tender] will be maintained at least over the next four years. Changing the current arrangement remains a highly unlikely political move, given strong support for the exchange rate regime on the basis that it promotes economic stability, avoiding local currency volatility and devaluation risks.

An optimistic forecast is projected toward the external accounts with a string of current-account surpluses expected over 2022-26. Continued growth in exports, high oil prices and a decline in import growth should support the trade balance this year, driving the current-account surplus up to 3.8% of GDP – a two-decade high. Following that, mining exports should gain momentum, helping to maintain a trade surplus.

These surpluses and multilateral financing (particularly from the IMF) will bolster central bank foreign-exchange reserves, providing a cushion against adverse fiscal and financial shocks. FX reserves are expected to rise to 3.6 months' worth of import cover by end-2026, compared with an average of 1.8 months in 2010-20. Although the Lasso administration plans to increase private investment, the consensus is that such inflows will develop slowly with the expectation that (FDI) will remain weak over the medium-term.

The impeachment vote highlighted the deterioration in executive-legislative relations, as almost 60% of legislators voted to oust the president. We expect that Mr. Lasso will try to repair his public standing by increasing public spending: high oil prices could give him the fiscal room to do so, assuming that protests end, and oil production normalizes. The president has already promised higher fuel subsidies and cash transfers costing close to $600 million per year, even though this will delay fiscal consolidation. However, there are no guarantees these efforts will significantly boost Mr. Lasso's approval ratings.

China & Emerging Markets

Declining investment efficiency, an aging population and tensions with the West are prompting China to recalibrate its economic model, with far-reaching and mixed long-term implications for emerging market (EM) economies that have benefited from China's growth and expansion.

China's construction activity is expected to contract in the long-term, which will reduce its now -enormous demand for steel. This will in turn, suppress Chinese demand for iron ore imports from EM like Brazil. The impact on other commodity exporters will be mixed. Countries rich in "green metals" will benefit from China's energy transition, but other EM countries will be adversely affected by China cutting back on financing of coal-fired power projects.

The emphasis on domestic manufacturing and technology self-sufficiency could slow regional supply-chain integration and hamper industrialized growth of Asian EM economies.

China cannot achieve food self-sufficiency on its own, and its pursuit for food security is generally good news for EM agricultural producers.

China's economic boom has been one of the main drivers of growth in EM countries over the past two decades. Rapid industrialization and urbanization, along with a boom in international trade, spurred almost insatiable demand for commodity imports, mostly from EM countries. China's deeper regional integration further boosted growth in Asian EM economies. Yet a series of challenges have emerged. Investment which still accounts for 40% of Chinese GDP, has become inefficient and increasingly debt driven. Population aging is weighing on consumer demand and will strain the public finances with a hefty pension bill. In addition, China's geopolitical rivalry with the U.S. and much of the West has escalated further amid the Russian-Ukraine conflict. These dynamics will spur a change in China's economic and demand structure, with far reaching and mixed implications for EM countries in the long run.

In response to these challenges the Chinese leadership has called for a pivot to "quality growth", with the vision of transforming China into a more equitable, self-reliant and technologically advanced economy. The expectation is that this policy reorientation to drive a major change in the structure of fixed-asset investment as the state sector, which dominates the financial resources in China, aligns itself with the policy focus on "quality growth". Sectors deemed "inefficient" or inconsistent with these objectives will lose out, such as those related to "outdated" industrial capacity, as well as property construction in regions with population outflows.

China's decades-long construction boom has become increasingly unsustainable as its population peaks, urbanization slows and household debt rises. The number of new homes built after 2015 far exceeds what is needed. The government's clampdown on the housing market, which has led to protracted financing crises for developers and failures of construction com-

panies, could accelerate the decline. At the same time infrastructure investment has stalled since 2018 as the central government has become wary of unregulated borrowing at the local level – a previously important funding source for public works projects. This indicates that infrastructure investment will play a less important role in the economy than previously.

The expectation is for a contraction in China's construction sector over the long term, with implications for EM iron ore exporters. Construction consumes more than half of the steel produced in China, which relies on imported iron ore as inputs. The country accounted for 75% of global iron ore trade in 2020. The decline of the construction sector, along with other structural shifts in the economy (including the adoption of electric-arc steelmaking using scrap steel), could cause China's steel demand to fall by 20-30% by 2050 (according to the Economist Intelligence Unit). Among EM countries, Brazil is most heavily exposed, as iron ore shipments to China accounted for 10.2% of its total exports in 2021. Russia and South Africa could take a hit as well, although their economies are less dependent on iron ore exports.

China is committed to reaching a carbon emissions peak by 2030 and becoming carbon neutral by 2060. These are ambitious long-term targets, given China's reliance on coal and the carbon-intensive nature of its industrial sector. However, the government hopes that the green transition drive will improve investment efficiency and bolster China's claims on international climate leadership.

This will reshape China's demand for commodities; the country is now a leader in electric vehicles (EVs), battery technologies and renewable power, which translates into a surging appetite for "green metals". The International Energy Agency (IEA) estimates that by 2030 global demand for lithium, cobalt and nickel will have grown 7.5 times, 5.2 times, and 5.4 times, respectively- if countries stick to their existing carbon commitments. China's investment in solar and wind power facilities, as well as grid improvements, will also drive demand for relevant industrial metals such as copper and aluminum.

Since these metals carry strategic importance for China, the country is likely to tilt its state-led outbound investment towards key supplier countries. Private enterprises will also play a role, however, given their increasing role in green areas including electrical vehicle battery manufacturing. This will provide a boom to Chile and Argentina, two of the biggest lithium producers in the world. Similarly, Indonesia will benefit as an important link on the global cobalt and nickel supply chain. Sustained demand for copper should also boost China's links with Chile and Peru.

Food is an area where China wants to mitigate the risk of external dependence, but complete self-sufficiency in this regard will be difficult to achieve. Although the demand for food in China has increased in quantity and diversity as the economy has grown, grain production has stalled as a result of government subsidy cuts and losses of arable land. As China cannot wean itself off food imports (similar to energy), the self-sufficiency drive will mean further geographical diversification of imports, especially away from the U.S. and Australia, with which relations have soured. China will increasingly turn to Russia for grain imports as a form of diversification, as well as a way of providing economic support to the heavily sanctioned country. Increasing Chinese imports of certain crops (soybeans and corn) and meat products (beef) will benefit Brazil and Argentina in particular.

By Byron Shoulton, FCIA's International Economist
For questions / comments please contact Byron at
bshoulton@fcia.com

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