Major Country Risk Developments
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Overview

The global economy is heading into its weakest growth spell since the Covid-19 slump as the U.S. trade war saps momentum in leading economies including the U.S. This is according to the latest Organization for Economic Cooperation and Development [OECD] forecasts. The OECD slashed its outlook for global output and the majority of the Group of Twenty [G20] leading economies - as it warned that agreements to ease trade barriers would be key in reviving investments and avoiding higher prices.

Global growth is expected to be 2.9% in 2025 and also 2026 according to the OECD's latest outlook. This figure exceeded 3% every year since 2020, when output plunged because of the pandemic.

Many companies have stocked up ahead of tariffs, but sentiments among CEOs remain subdued, while consumers and investors are expecting tariff-driven price hikes and weaker demand. Global trade will expand by 2.8% in 2025 and 2.2% in 2026, sharply lower than predictions from December 2024. Fiscal risks are rising along with trade tensions, with demands for more defense expenditure set to add to spending pressures.

Despite rising profits, firms have shied away from fixed capital investment in favor of accumulating financial assets and returning funds to shareholders. Boosting investment will be a necessity if economies are to be revived as policymakers look to improve public finances.

Growing U.S. protectionism notwithstanding, trade between nations will continue and, in some cases, expand over the coming years. We base this on the inordinate global need for technological advancements and the desire for application of new technologies in industry, medicine, manufacturing, defense, mining, and raw material extraction, amongst other fields. The continued worldwide push in research and new scientific breakthroughs force adaptation to the latest innovations. All countries crave - at varying degrees - access to new innovations to assist in national development, creating employment opportunities and driving economic growth.

Countries will continue to trade knowhow, technology, equipment, raw materials, intermediate goods, consumer goods and manpower – to meet internal needs and goals. That need remains the driving force and a source of optimism (despite policy disputes, wars and geopolitical tensions) helping to create assurances that trade will and must continue, albeit at a reduced pace over the short term.

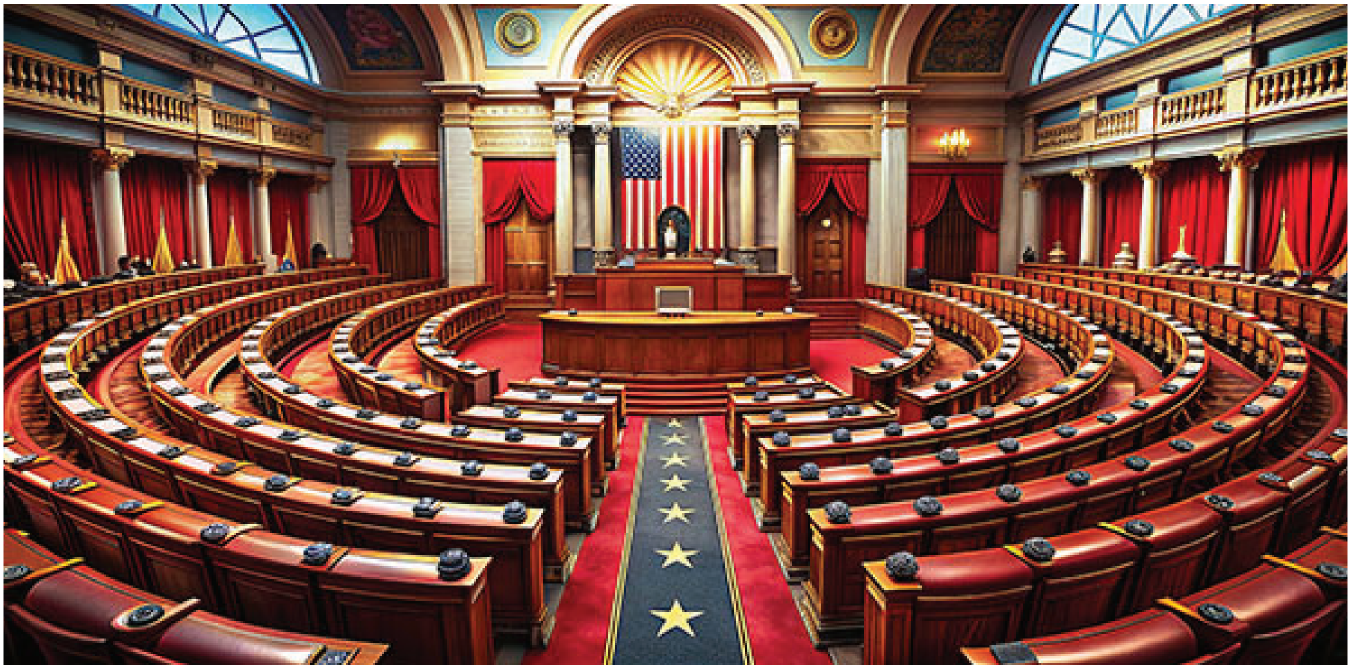
USA

U.S. growth will slow particularly sharply, sliding from 2.8% last year to just 1.6% in 2025 and 1.5% in 2026. A bout of inflation will likely prevent the Federal Reserve from cutting rates this year. President Trump disagrees and has made clear he believes a rate cut is needed now. The U.S. economy shrank during the first quarter as imports surged ahead of tariffs. Parts of the economy now appear to be slowing, with fewer monthly new jobs added in April and May 2025. In both months, new jobs reportedly were below expectations. Loss of government jobs due to department closures and across-the-board cuts could be reflected in the numbers. The OECD is forecasting U.S. inflation to rise from about 2.3% to 3.9% by year-end 2025.

Business confidence continues to see-saw amidst uncertainty; while changing tariffs overwhelm accurate forecasting, planning and financing. Companies, exporters, suppliers, traders and others have tried to shield their businesses from higher tariff-related costs where possible; and many are gearing up for further supply chain disruptions as high tariffs take root.

Effective June 3, 2025, all imported steel and aluminum products entering the U.S. became subject to 50% tariffs, up from 25% imposed earlier this year. Countries affected include Brazil, Canada, China, Germany, Mexico, Taiwan, South Korea, and Turkey, among others.

The ability of domestic U.S. steel and aluminum sectors to replace imported inputs, and to fill the needs of the U.S. market [including raw materials], remain woefully inadequate. This could remain true for years to come. Immediate and heavy new investments in both the steel and aluminum sectors in the U.S. is necessary to begin replacing imported steel and aluminum input needs that help keep U.S. homes, factories, commerce and industry running. Hence, the expectation is that many U.S. importers relying on import supplies of varied related steel and aluminum products, will now pay 50% when goods arrive - until and unless lower levies are negotiated between the U.S. and each affected country. This will cause prices to rise on a wide range of goods and services that use steel and aluminum products and by-products.



These price increases will be global. The use of steel and aluminum have multiple applications in a wide cross section of the global economy. This includes household goods, construction, machinery, aircraft, defense, auto parts, cars and buses, shipping, highways, ports, airports, railways, commerce and more. Transportation and shipping costs are also trending higher. Global waterways appear more vulnerable and security sensitive. Hence, higher spending on security safeguards.

The U.S. House of Representatives passed, by just one vote, the Trump Administration's proposed budget bill that seeks to make permanent the "temporary" tax cuts from the first Trump term, while it raises deficits. The Bill reflecting the rising fiscal risk, the yield on 30-year treasuries rose to 5.1%, the highest since 2007. Net federal debts have grown to 100% of GDP, a near-tripling over two decades, meaning that ***the U.S. Treasury will soon pay more than $1 trillion per year of debt interest.*** Unfortunately, the forecast is for this to keep rising.

The new budget if passed, would ensure that U.S. government deficits stay around 6-7% of GDP, raising the forecast debt in 2034 by $3 trillion. And if new temporary tax cuts become permanent, the cost could exceed $4 trillion. The hope is for revenue from high tariffs and projected economic growth to help fill this debt hole. Yet, the overall effect of the pending Bill (which needs to be passed by the Senate) could be negative as more spending is likely to be offset by higher interest rates. A widely held belief that U.S. fiscal deficits hardly matter is dangerous, especially as concerns mount over anticipated higher prices due to tariffs, a likely inflation spike, uncertainties over longer-term economic stability.

Efforts to engage China, the European Union [EU] and several other trading partners to negotiate possible concessions to high U.S. high tariffs are proceeding slowly. Several EU governments have signaled they want a quick deal with the U.S. to head-off the U.S. threat of 50% tariffs on the trading bloc, urging the European Commission [EC] to keep talking to Washington rather than taking a path of confrontation. Belgium, Ireland, Italy, France and Spain and have also welcomed the bid to accelerate talks and avoid escalation of the transatlantic trade war.

The U.S. contends that the EU has not made much progress responding to U.S. demands to cut its trade surplus. Italy's Prime Minister Meloni has tried to act as a bridge between the U.S. and the EU seeking to delay the increased tariffs. PM Meloni has proposed a summit between leaders of the EU economies, EC officials and the U.S. president in July. The leaders from France and Spain have added their support for close talks to bring down tariffs. Belgium, whose relatively small economy is reliant on exports, also welcomed the EU's constructive approach. The EC has recently indicated that it has agreement with the U.S. to 'fast-track' trade talks.

Separately, the North Atlantic Treaty Organization (NATO) announced it is aiming for members to eventually spend 5% of their economies on defense as Europe adjusts to the new reality that the U.S. is no longer willing to foot the bill for regional defense. Several NATO allies on the Russian front lines understand the stakes. Poland is already above 4% on defense, and the Baltic states are heading to 5% without NATO's institutional prodding. The U.S. spends 3.38% of GDP on defense today (compared with 3.71% in 2014).

EU member states have approved a $25 billion package of up to 50% tariffs on U.S. goods such as maize, wheat, motorcycles and clothing, which will kick off on July 14 without a deal. The EC is also consulting member states on a $100 billion list of other targets, including Boeing aircraft, cars and bourbon whisky.

Assuming across-the-board U.S. tariffs survive the legal challenges - or are reintroduced under other laws - a combination of delayed capital spending and expectations of higher inflation could easily start to show up in weaker spending and job losses later this year- and into 2026.

Meanwhile, households, businesses, farmers, exporters, importers and others engaged in trade, brace for higher operating costs and likely weaker consumer spending. Higher cost of living inevitably suppress demand and weakens consumer spending. Higher prices are the antithesis of pro-growth.

U.S. bankruptcy filings increased in May. Companies facing economic headwinds or weaker debt profiles may confront increased pressure over the coming months as refinancing needs are met with elevated interest rates and volatility in U.S. Treasury yield movement, which influences rates for corporate debt. The yield for the 5-year Treasury note fluctuated in May between a low of 3.81% and a high of 4.17% before settling at 3.96% at the end of the month

The latest assessment represents a downgrade to the OECD's March interim forecasts, which preceded U.S. 'liberation day' tariffs in April. Now the U.S. effective tariff rate is unprecedented, from 2.5% to above 20% - the highest since the second world war. The OECD also trimmed 2025 forecasts for G20 countries, including China, France, India, Japan, South Africa, and the U.K.

Meanwhile, Mexico says it intends to announce its own countermeasures if no agreement is reached with the U.S. on steel and aluminum tariffs. Mexico called the increase in tariffs to 50% on steel and aluminum "an unfair measure," citing the free-trade agreement Mexico and Canada share with the U.S.

The consensus is that countries urgently need to strike deals that will lower trade barriers. Otherwise, the growth impact will be significant, with repercussions for all countries. Growth prospects for almost all countries have been revised downward. Weakened economic prospects will be felt around the world according to the latest OECD outlook.

Adding to the drag on growth and investment is uncertainty about the direction of global trade policy. U.S. tariff moves have fluctuated wildly, imposing massive levies on China before partially dialing the measures back, while threatening hefty levies on democratic allies and other countries, including the EU. Now, there is a doubling of levies on steel and aluminum imports to 50%.

The projected renaissance in U.S. manufacturing in response to high tariffs on imports could be effective. However, it will take close to a decade to construct plants that are necessary for this transition. The U.S. would then emerge as the world's high-cost manufacturing base for the low-value goods it now imports, which is hardly a compelling economic strategy. The question remains: is a devastating tariff regime worth the self-inflicted economic pain, global disruptions, uncertainty and risks that it could deliver to the global economy in the meantime?

China

Chinese growth will slow from 5% last year to 4.7% in 2025 and 4.3% in 2026.

It is well known that China exploited its comparative advantage in recent decades, using its abundant labor force to become the dominant manufacturer globally. That was especially true for labor intensive goods and lower skilled jobs. Now, China has made it clear that "new quality productive forces"- or advanced manufacturing - will remain core to the country's growth model. However, production in high-tech export industries will be less labor-intensive and will not provide enough opportunities to soak up excess Chinese labor over the next few years.

China's low-skilled migrant workers are the most exposed to a decline in manufacturing on the Chinese mainland. Chinese provinces are making some attempts to prop up traditional manufacturing industries which faces a painful transition. Joint initiatives between officials in Qingyuan City and neighboring Guangzhou to create a "smart manufacturing base" at the Zhongda Fashion Market in to boost manufacturing in fast fashion is one example of the initiatives underway. Officials hope the site will attract small-scale business across the

province to set up newer, more technologically advanced operations, to help boost the competitiveness of the region's sprawling garments industry. Projects like these across China are the state's attempted solution to the ongoing hollowing out of manufacturing industries.

China's share of the export of 10 labor-intensive products -including home fixtures, furniture, luggage, toys, and others-peaked at nearly 40% in 2013, according to figures compiled by Harvard's Kennedy School. The figures show that China's share of the combined 10 goods had fallen to less than 32% by 2018. Tariffs put in place by the U.S. have since accelerated the process.

Even items requiring more advanced processes are not immune. Amid the tensions with the U.S., global and local companies have accelerated their efforts to "de-risk" their supply chains and decrease Chinese production of everything from iPhones to car parts in recent years. The major beneficiary of this trend has been south-east Asia, with both Chinese companies and their global customers accelerating efforts to source more goods from rival hubs in the region.

Exports from Vietnam and Indonesia achieved compound annual growth rates of 8.2% and 12.3% between 2019 and 2023. The two countries have collectively added 10 million manufacturing jobs since 2011. This trend is true in several other southeast Asian countries to a lesser extent. It is natural for a country like China, which is becoming richer and where wages are growing, to allow some of the more labor-intensive-oriented activities to shift to other countries. Structural changes are hard on some workers and it's a government and society-level choice on how protective you are of those workers.

Still, manufacturing is far from dead in China. In many Chinese factories humans increasingly work in synchronization with machines to churn out new electric vehicles every 53 seconds. Advanced sites like these are examples of Beijing's vision for "new productive forces" in action: high tech machines run by smart systems, producing more advanced products. In some cases, such as robots lifting, rotating and installing windscreens on chassis passing on a conveyor belt- humans are vastly outnumbered by machines.

Other tasks, such as hazardous welding and coating of car doors are entirely automated, while the overall automation rate of the final assembly process is about 40% today. This is by design. Factories have a goal of reducing the human workforce by 10% a year.

As China begins to resemble Europe, it is hard to find young workers. Increasingly, on car production lines, humans are only used to perform relatively "high importance" tasks, like quality control. China's demographic decline, and the growing reluctance of a more highly educated younger generation to work on production lines, means that many newer factories are struggling to find the workers they need.

China's working-age population peaked at over 900 million in 2011 but is forecast to shrink by almost a quarter 700 million by the middle of this century, according to a Brookings Institution report.

Policymakers see automation and robotics as imperative if China is to hold on to its long-term productive capacity. If China does not automate now, goes the thinking, even its high-end production will be outcompeted by rival nations. The new growth created by high-end jobs is expected to ultimately create a range of new jobs and consumers, boosting employment on aggregate. Still, it is also acknowledged that while innovations like automation will help address pressing labor shortages in certain industries, they may displace workers unable to adapt to new productive methods.

For those already working in high-end industries, the expansion of automation and robotics will help address the challenges posed by China's rapidly aging and shrinking workforce, and future workers from undesirable work. Meanwhile, intense competition within high-tech sectors, particularly electric vehicles, has triggered a price war and a wave of company and factory closers over the past two years.

China is holding strong to its principles as it slowly engages with the U.S. for long awaited bilateral negotiations. The Chinese side will not cave in - a point acknowledged by President Trump in recent comments. The control China has on critical rare earth minerals and the U.S. need for those minerals is not lost on either side. Expect China to play this advantage to the max in its approach-and ultimately to get concessions from the U.S. in exchange for access.

Negotiations with China promises to be tough but ultimately there will be a deal. China needs the U.S. as much -if not more- than the U.S. needs China.

Canada

Mark Carney's new government plans a needed boost to the Canadian economy. Lower taxes are cutting red tape, and new infrastructure investments are meant to lead off a turnaround in confidence and boost economic activity.

Separately, the Carney administration appears sincere in wanting to partner with energy rich provinces and companies to boost Canadian energy production and potentially assuming a larger role in the sector globally.

Canada's steel industry warned of "catastrophic" job losses, factory slowdowns and supply chain disruption after the U.S. doubled tariffs on imports to 50%. The move sparked surprise as PM Carney had just visited with President Trump in Washington, D.C., in May to repair frayed relations with Canada's largest trading partner. The two leaders expressed a willingness to renegotiate the U.S.-Mexico-Canada Free Trade Agreement, which is up for review in 2026.

Canada is the largest supplier of steel and aluminum to the U.S., accounting for a quarter of U.S. steel imports and 50% of all its aluminum imports last year. Steel is a $15 billion industry in Canada employing 23,000 people and supports an additional 100,000 indirect jobs. Steel tariffs of this magnitude will create mass disruption and negative consequences across a highly integrated steel supply chains and customers on both sides of the border. Experts in the sector are convinced that tariffs at 50% essentially closes the U.S. market to Canadian steel.

The Aluminum Association of Canada said it awaits "clearer and more formal legal confirmation" to assess the full impact. Canada believes it is now negotiating a new economic and security relationship with the U.S. and is prepared to stand for and negotiate the best deal possible.

The additional tariff announcement came at the same time as the U.S. said Canada would have to pay $61 billion to be part of the ambitious "Golden Dome" missile defense shield but would be free if Canada gave up its sovereignty to become the 51st U.S. state.

Canada has announced a "dollar for dollar" response to the U.S. tariffs that will affect steel products worth $12.6 billion, aluminum products worth $3 billion and

additional U.S. goods worth $14.2 billion. These tariffs launched in March are on top of initial retaliatory levies on $30 billion of U.S. goods. However, in mid-April, Canada quietly softened its stance by easing some of the countermeasures on U.S. carmakers and manufacturers

Meanwhile, Canada's agriculture and natural resource sectors will now be forced to double down on efforts to diversify globally and attempt to unwind heavy reliance on the U.S. market. In the face of record high U.S. tariffs on Canadian exports to the U.S., and what has become a tense relationship with the U.S., Canada and Prime Minister Carney are in uncharted territory.

The economy's dependence on trade with the U.S. has been harshly exposed, while the aggressive stance by President Trump to make Canada the 51st state, has shaken up Canada's complacency. The U.S. and the American market should no longer be taken for granted. Canadian ministers and provincial leaders met in Saskatchewan province in June as part of PM Carney efforts to diversify the economy away from-over-reliance on the U.S.

The goals of the Carney government are ambitious and will take years to realize – at best. The country will have to run budget deficits for at least the next 3 years. The deficits are to be financed through borrowing. The quicker that Canada can find new markets to replace the U.S. for its exports (thereby avoiding high tariffs) the quicker the country will be able to stand on its feet.

The Canadian economy grew by 1.5% in 2024 and is expected to grow by 1% in 2025 and in 2026. The Bank of Canada (BoC) left interest rates unchanged again in June, as it seeks to gain further information around U.S. trade policy and its impact. The BoC also kept the lending rate unchanged in April, after cutting by 25 basis points to 2.75% in March. The cut was BoC's second reduction this year, as it also lowered its lending rate by 25 basis points in January.

The Boc said that uncertainty surrounding U.S. tariffs remain high, noting that the U.S. has "continued to increase and decrease various tariffs." It confirmed that the domestic economy is softer, but not "sharply weaker," noting that there was some unexpected firmness in recent inflation data. The consumer price index eased to 1.7% in April.

Risks and uncertainties cited by BoC include "the extent to which higher U.S. tariffs reduce demand for Canadian exports; how much this spills over into business investment, employment and household spending; how much and how quickly cost increases are passed on to consumer prices; and how inflation expectations evolve."

South Korea

The political vacuum that has existed in South Korea since last December's impeachment of Yoon Suk-Yeol finally ended on June 3, 2025. Lee Jae-myung won South Korea's presidential election by a decisive margin. Lee, a liberal who narrowly lost the country's last election to Yoon, has promised to fix the country's mounting economic problems and its broken politics.

The incoming government's agenda includes improving conditions for workers, shoring up the public sector, and boosting growth in strategic areas such as AI and defense.

South Koreans were dismayed when the U.S. imposed 25% tariffs on all Korean imports in April, after already hitting the country with aggressive tariffs on its core industries -steel and cars. They had assumed that being longstanding military allies from the days of the Korean War and having a free-trade agreement with the U.S., would spare them.

The sentiment in Seoul is that if these tariffs take effect, they could trigger an economic crisis. Before the new tariffs were announced, South Korea's economy was already slowing down. The martial law chaos further constricted economic activity. During the first quarter of 2025 the economy contracted. Fixing the weaknesses remains the number one challenge for President Lee.

The U.S currently guarantees South Korea's security by promising to come to its defense with both conventional and nuclear weapons were it to be attacked by its nuclear-armed neighbor, North Korea. As part of this deal, there are 28,500 U.S. troops stationed in the South.

The new government will also have to dedicate policies targeted at North Korea. It is believed that the South Korean government will seek a window of opportunity to resume productive diplomacy with North Korea.

President Trump has made it clear that there are no plans to differentiate between trade and security when negotiating with South Korea, signaling that as far as Washinton is concerned Seoul is not pulling its weight in either area. The South Korean president must move quickly to come up with a list of reasons why his country is an indispensable partner and why U.S. dollars are being well spent in protecting South Korea. One advantage South Korea is hoping to play is its shipbuilding prowess. It builds more vessels than any other country except China, which is now the world's dominant ship builder and home to the largest naval fleet. This is a frightening prospect for the U.S. whose own industry and navy are in decline.

At South Korea's flagship shipyard in Ulsan- the largest in the world- Hyundai Heavy Industries builds 40-45 new ships a year, including naval destroyers. South Korea is hoping it can use this expertise to build, repair and maintain warships for the U.S. and in the process convince Washington it is a valuable partner.

In President Trump's first term he questioned the use of having U.S. forces stationed in Korea and threatened to withdraw them unless South Korea paid more to have them. It is possible the U.S. will demand more money this time around. South Korea may not want to pay more.

Meanwhile, President Lee, who historically has been skeptical of South Korea's alliance with the U.S., wants to use his presidency to improve relations with China, South Korea's powerful neighbor and trading partner. Lee has stated on many occasions that that South Korea should stay out of a conflict between China and Taiwan. Other Korean voices, including former national security advisors say they worry about the U.S. abandoning their country. Yet they are also worried about being entrapped in American strategy to contain and encircle China.

South Koreans also worry about U.S. relations with North Korea. Since returning to office, President Trump has indicated he would like to resume talks with North Korean leader Kim Jong Un, talks that ended without agreement in 2019.

In South Korea, there is great concern that this time the two leaders could strike a deal that is bad for South Korea. According to some analysts, Kim has far more leverage than he did in 2019. He has more nuclear warheads, his weapons are more advanced, and the sanctions that were supposed to put pressure on his regime have all but collapsed, thanks largely to Russia's Vladimir Putin.

The Russian leader is providing Kim with economic and military support in return for North Korean help fighting the war in Ukraine. This, therefore, gives Kim the cover to make audacious requests of the U.S. The South Koreans acutely understand all that is at stake.

Meanwhile, both the U.S and South Korea need each other for different reasons. It will be crucial for the U.S. and South Korean governments to solidify the bilateral economic partnership that help strengthen their economies while enhancing their mutual security interests. However, this may not be as easy or inevitable as once thought.

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Trade Credit & Political Risk

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