Major Country Risk Developments
March 2025

By Byron Shoulton

Overview

Hefty U.S. tariff increases have led to significant uncertainty looming over global trade, supply chains and the global economy. One of the world's most integrated supply chains -U.S., Canada, Mexico free trade area- is being dismantled via a trade war. Together with 20% tariffs imposed on Chinese goods, and threats to also tax goods from the European Union, Japan and South Korea, investors, consumers and companies have become increasingly nervous about the likelihood for trade disruptions. Markets are flashing red.

The prospect of higher inflation is not deterring the U.S. Administration, which views the potential economic harm from tariffs as worth it. Although U.S. economic growth remains fair, in recent weeks the yield on ten-year Treasuries has fallen, measures of consumer sentiment have plunged and small business confidence has slipped, hinting at a slowdown to come.

The IMF has noted that the U.S. trade deficits are not due to cheating by trading partners, but to excess of U.S. spending over income. The biggest determinant of U.S. trade deficits is its huge federal deficit, currently at 6% of GDP. This deficit will persist for at least as long as markets fund it.

Furthermore, looking only at bilateral trade in goods, while ignoring trade in services and earnings from capital and labor is misleading. The income the U.S. derives from exports of services to the eurozone (for example) and the returns on capital and the wages of labor it has exported offset its bilateral deficits in goods. The overall eurozone bilateral current account balance with the U.S. is close to zero. Bilateral balances in goods alone are less significant even than overall bilateral balances.

For Mexico and Canada, the economic costs of these tar-

iffs will be high, since their exports of goods to the U.S. were 27% and 21% of GDP respectively, in 2023. Exports of goods from the European Union to the U.S. were only 2.9% of its GDP in 2023. For the EU therefore, the impact of 25% tariffs would be less severe.

USA

The U.S. economy entered a new era on March 4th as new high tariffs on imports from Mexico and Canada took effect. The tariffs on imported goods ended decades of free trade among the three countries and could disrupt entire industries. U.S. companies have been preparing for the potential move, even as some business leaders thought the threats were mostly meant to elicit concessions from U.S. trading partners.

Many companies have raced in recent months to stockpile imported goods, hoping to cushion any blow or ride out tariffs if they were a temporary bargaining measure. Others have used the uncertainty to push through price increases or to lobby administration officials to spare them by promising to invest in U.S. factories.

The extent of the tariffs has the potential to reshape relations between the U.S. and its two largest trading partners, abruptly reversing the U.S.'s decades long push to expand free trade with all its allies. The move could also slow the U.S. economy that is already absorbing the effects of mass federal job cuts, reduced government spending and immigration restrictions, while raising prices on a wide array of goods, including autos, crude oil, fruits and vegetables, electronics, white goods, spare parts and more.

The 25% tariffs have been levied on imports from Mexico and Canada, with the exception of energy products such as crude oil and natural gas, which will be tariffed at 10%. Canada has imposed retaliatory tariffs of 25% on $100 billon of U.S. imports; while the province of Ontario also said it would impose 25% export tax on electricity it sends to 1.4 million homes in the U.S. President Trump is threatening more tariffs.

Mexico has indicated it will also retaliate, with a range of moves to be announced shortly.

Beyond tariffs on Mexico and Canada, the U.S. also imposed an additional 20% levy on Chinese goods imported by the U.S. These tariffs mark an escalation in trade tensions with these countries. The U.S. cited the flow of drugs and undocumented immigrants across the U.S. border as justification for tariffs. The administration is expecting the extent of the new tariffs to cause a shift to more manufacturing in the U.S.

The consensus among economists is that if tariffs remain in place, and Canada, Mexico and China enact tit-for-tat tariffs on U.S. goods, this will add 1.2% to overall consumer prices over the next year. Less affluent households are most exposed because they spend a greater share of their income on day-to-day items. One estimate is that the tariffs would reduce GDP growth by 0.6% in 2025. Another estimate by Evercore ISI strategists forecast an even larger 1%+ drag on GDP this year. It is more difficult to forecast the impact of the tariffs on tightly integrated North American supply chains.

The combination of slower growth and faster price increases put Federal Reserve policymakers in a tricky position, limiting their scope for cutting rates in response to economic weakness.

Some economists believe that tariffs will ultimately benefit the U.S. economy despite some short-term pain, by incentivizing manufacturing to move to the U.S. When combined with promised corporate tax cuts and deregulation, a surge in new investment in manufacturing could potentially boost growth. Indeed, a number foreign and domestic companies have indicated their intention to invest in significant U.S. based manufacturing projects over the next 5-10 years. Unfortunately, those investments will need time to build production facilities and become productive. Thus, they are unlikely to make a difference in U.S. economic performance, trade or employment over the short-term. In the meantime, adjusting to the higher costs caused by high tariffs, on top of already high labor costs and labor shortages, mean the U.S. is likely to become an even more expensive location to produce. The global economy by its very nature will seek cheaper locations to sell and produce goods.

Even if tariffs are lifted quickly, they may continue to weigh on growth. Many consumers are already on edge, expecting prices to rise. This sentiment could dampen the economy. Unsure of how long tariffs will stay in place, or the scope for additional tariffs against goods from other countries (such as Japan, the European Union, Asia or Latin America), businesses' ability to plan is being constrained, making it harder for them to confidently invest and hire. A trade-policy uncertainty index last month hit its highest level on record, exceeding the peak of the Covid-19 panic. This is likely to disrupt all manner of investment and hiring plans.

Companies were already complaining in February about tariff disruptions in regional Federal Reserve manufacturing surveys. "*This is a time of uncertainty for manufacturers, very difficult to make business plans*", one respondent commented in a recent Kansas City Fed survey.

The February manufacturing report from the Institute for Supply Management frequently mentions tariffs. Among the comments included in that report: "*Customers are pausing on new orders because of uncertainty regarding tariffs. There is no clear direction from the administration on how they will be implemented, so it's harder to project how they will affect business*". The ISM's index of manufacturing activity fell slightly, indicating a slowdown in manufacturing growth in February.

The auto industry, with supply chains stretching across three countries, is particularly at risk. Ford warned that protracted 25% tariffs against Canada and Mexico would have a huge impact on the sector, with billions of dollars of industry profits wiped out. An Anderson Economic

Group analysis estimates that the 25% tariffs would raise the cost of a pickup truck assembled in North America by $8,000. Heavy-duty truck prices would also surge as they rely on parts from Canada and Mexico. The impact won't be felt for a couple of months as car dealers work through inventories already on their lots.

Retailers have also warned that sales would be flat this year because of consumer uncertainty and escalating tariffs. Some companies emphasized they expected their vendors to "*pass along some level of tariff costs to retailers*" making price increases to U.S. consumers highly likely. Other companies are planning to absorb the additional costs, at least for now. Some may consider it prudent to split the bill of the new tax with their customers.

Canada, Mexico, and China together account for half of all U.S agricultural exports. In 2024 the U.S. sold more than $30 billion in farm products to Mexico, $29 billion to Canada and $26 billion to China, according to American Farm Bureau statistics. Hence, U.S. farmers are also frustrated with the new tariffs. Soybean farmers are one example. As the number one export crop for the U.S., soybean producers face huge, disproportionate impacts from trade flow disruptions, particularly to China, which is the U.S. largest market for the product. Foreign soybean producers in Brazil and other countries are expecting abundant crops this year and are primed to meet any demand stemming from the renewed U.S.-China trade war. Soybean farmers still have not fully recovered market volumes from the damaging impacts of the 2018 trade war, and this will further exacerbate economic hardship on those farmers.

U.S. farmers are already being squeezed by low crop prices and inflation. The American Farm Bureau Federation confirms that farmers are losing money on almost every major crop planted for the third consecutive year. Tariffs will increase their pain. About 85% of the U.S. potash supplies for fertilizer are imported from Canada. China is hitting U.S. farm exports with a 15% tariff, which will let farmers in Brazil and Australia grab market share. Additional costs and reducing markets for U.S. agricultural goods could create an economic burden many farmers may not be able to bear. Corn and wheat prices fell after China imposed retaliatory tariffs on some U.S. goods, pushing farmers into the middle of the expanding disputes between the U.S and its largest trading partners.

During the 2018 trade war with China, U.S. agriculture experienced over $27 billion in losses, with soybeans accounting for 71% of those losses, according to the American Soybean Association.

Consumers are bracing for higher prices on beer, autos, spare parts, fruits, vegetables, smart TVs, and much more. About 30% of vegetables and fresh fruit sold in the U.S. come from Mexico. Modelo Especial produced in Mexico is the best-selling beer in the U.S.

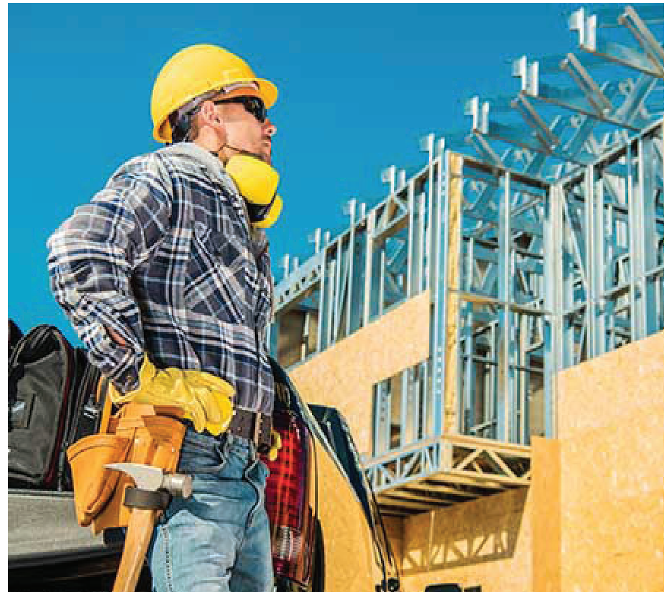
Nafta, which was supplanted by the USMCA, encouraged electronics manufacturers (among others) to set up shop in Mexico instead of China. Those products would likely be now 25% more expensive. Energy prices will rise as well. The administration implicitly conceded this by reducing the tariffs to 10% on Canadian energy imports. Despite the U.S. shale fracking boom, constraints on pipeline capacity mean the Midwest and Northeast

depend heavily on Canada for natural gas. That means heating bills will rise and so will electricity prices.
The U.S. imports enough electricity from Canada to power 3.7 million homes. These flows help stabilize the U.S power grid and lower prices in the Northeast and Midwest. New England's grid operator estimates the tariffs could cost the region between $66 million and $165 million additionally each year. Energy makes up 40% of primary aluminum producers' costs. Several Midwest foundries have closed in recent years amid rising energy prices.

The U.S. is a net oil exporter, but it still imports 6.5 million barrels of crude per day, mostly from Canada and Mexico. That is because refineries in the Gulf Coast and Midwest process heavy grades. It would cost billions of dollars to retrofit these refineries to process light blends from the U.S. shale. Drivers of pick-up trucks in the Midwest where refineries depend on Canadian crude) are likely to see prices rise at the pump. North American energy pipeline operators warned that U.S. tariffs on Canadian and Mexican oil and gas will fuel inflation and threaten energy security. Instead, the companies say the three countries should remove regulatory hurdles to building infrastructure to boost liquefied natural gas exports and providing electricity to help fuel the growth of artificial intelligence.

The imposition of 10% tariffs on Canadian and Mexican energy imports sent shockwaves through North America's energy industry, particularly in Canada, which pipes 4 million barrels per day of crude to U.S. refineries.
The tariffs exposed Canada's heavy reliance on the U.S. as a market for its energy exports and highlights the need for that country to diversify to other international markets. This could be done by expanding Canada's LNG industry and building more pipelines to the coast to ship Canadian crude to global markets.

U.S. home-construction costs are projected to increase $1.7 billion annually, partly because builders rely heavily on North American imports. More than 70% of U.S.



builders' lumber and gypsum products, such as drywall, come from Canada and Mexico, respectively. In a matter of months even big builders will need to increase rents for newly built apartments or raise the selling price on new houses. In some cases, builders will pause projects or abandon them entirely. The U.S. housing market is already too expensive, with far too many unavailable units to meet the expanding demand for housing across the country. Making housing more expensive will be a damper on the U.S. economy.

The U.S. continued to generate jobs at a steady pace in February, offering reassurances that the labor market has remained relatively stable since President Trump took office. The U.S. added a seasonally adjusted 151,000 jobs in February, below the gain of 170,000 jobs forecast. Still, February's number was better than the 125,000 jobs added in January. The unemployment rate rose to 4.1% from 4%. Cuts to federal government jobs came too late to be captured in the February figures. Those layoffs will begin showing up in the jobs count in the months ahead. Exactly how many federal government workers have lost their jobs so far is unclear. Some firings might not have been announced, while in other cases fired workers have

been called back to the office. There are also layoffs at private-sector employers where government contracts and grants have been canceled.

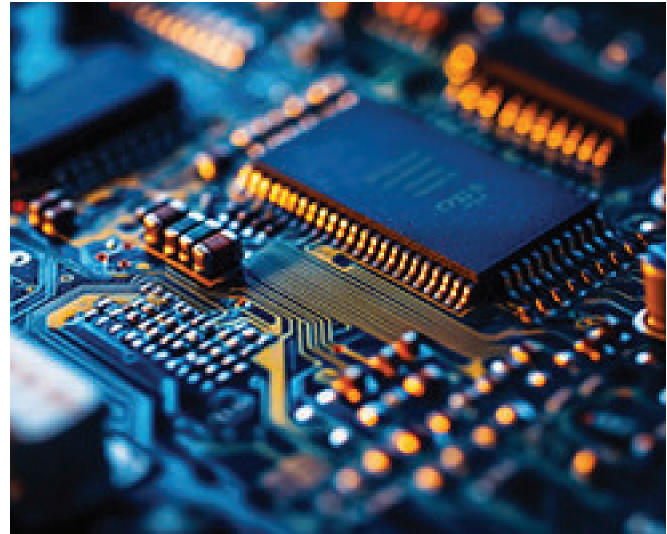
Tariffs are taxes, and the latest tariffs will amount to an annual $150 billion tax increase on consumers and businesses, paid to the U.S. Treasury. Taxes are also anti-growth. That is the message investors have been sending to markets since the latest round of tariffs was announced. The border taxes on imports, and the uncertainty they bring, are weighing on growth and consumer confidence. The Dow Jones Industrial Average has erased all its gains that followed the November election. The challenges facing anxious businesses and consumers will mount in the coming weeks and months and the administration will soon begin to feel the fallout. This could mean that the tariffs are soon lowered or removed. That, however, may only be wishful thinking.

Meanwhile, one of the long-term effects of this trade war could be that more countries around the world no longer see the U.S. as a reliable trading partner.

China

Following the U.S. November election, China's leadership reportedly ordered an urgent analysis of the Cold War rivalry between the United States and the Soviet Union. The concern was that as President Trump gears up for a showdown with Beijing, China could get isolated like Moscow was during the Soviet era.

The concerns are well placed. Even though the U.S. looks isolated on the world stage—picking trade fights with allies like Canada and Mexico, alarming Europe over the handling of the war in Ukraine and vowing to annex Greenland and the Panama Canal, China appears at this point not to be holding a strong hand in future negotiations. With its domestic economy in crisis, China is playing defense, hoping to salvage as much as possible of a global trade system that helped pull that country out of poverty. Across the Pacific, the U.S. is intent on rewiring that very trading system, which President Trump and his advisers see as having benefited the rest of the world—and China most of all—at the U.S.'s expense.



The U.S administration proposed imposing a fee on any Chinese-built commercial ship that enters a U.S. port, with additional fees for operators that have orders with Chinese shipyards. The idea is to counter China's maritime dominance.

China's grip on global shipping is unmatched. It accounts for almost three-quarters of the world's shipping orders, in contrast to the U.S. which has less than 1% of the market. Even South Korea and Japan, the next largest markets, remain China's scale. China's shipping and shipbuilding stocks have been investor favorites for years as they were seen as bet on Chinese oceanic ascendance.

In the short term, global shipping companies operating Chinese-built ships will face higher costs. Companies selling electronics, cars and clothing-sectors dependent on low-cost transport-and energy companies that rely on Chinese -built tankers for crude oil and LNG shipments face added margin pressure. Disruptions in shipping will hit global supply chains for consumer products, energy and more.

The competing agendas of the leaders of the world's two largest economies seem poised to lead to an outcome that China wants to avoid: a superpower clash not seen since the Cold War; an all-encompassing rivalry over economic, technological, and geopolitical supremacy.

The U.S. has highlighted the need to counter China over the past decade. The new U.S. administration believes it can now deal with Beijing from a position of strength. While the U.S. tries to end wars in the Middle East and Ukraine the ultimate focus remains on China. The enthusiastic embrace of Russia appears propelled in part by a strategic desire to eventually drive a wedge between the Russia-China alliance.

The U.S. seeks control of the Panama Canal in part because the Chinese infrastructure that has been built up in Panama over the past three decades is seen as a national-security threat to the U.S. The U.S. just notched a victory of sorts, when a consortium of investors led by a leading U.S. asset management firm agreed to buy the two ports at both sides of the Canal from Hong Kong-based CK Hutchison. This represents U.S. based resources replacing or meant to counter China's growing influence, presence, and prestige in the region.

The U.S. 20% tariffs on Chinese goods, citing its role in the fentanyl crisis in the U.S., surprised Chinese officials who were still trying to figure out how to approach the new U.S. leadership team.

China, which itself has tried to reshape the global order, aligning itself with Russia to challenge the West, now finds itself on the back foot. However, the vision where China finds itself cut off by trade restrictions and sanctions, suffering Soviet-style isolation with fewer outlets for its goods and limited access to crucial technologies, appears far-fetched. Nonetheless, Chinese leaders are sensitive to the danger of becoming the target of a similar Soviet-style rivalry and believes that must be avoided.

Beijing's efforts at shaping its strategy toward the U.S.

is complicated by the difficulty it faces getting the U.S. team to engage. China has not been a primary focus during the first weeks of the new Administration. The U.S. near-term priorities have been on fixing illegal immigration, slashing government spending, and ending Russia's war in Ukraine. While China waits for clarity on what the U.S. wants from Beijing, its economic team has been preparing ways to respond to the U.S. 20% tariffs.

Since the November election, China has dispatched several delegations to Washington to explore potential deals with the new administration, arguing that tariffs would add to the inflationary pressure in the U.S.—which the Administration wants to tame. Simultaneously, Beijing has developed an arsenal of tools—such as export controls on critical minerals—to inflict economic pain on the U.S. and has been courting U.S. traditional partners to prepare for a more intense face-off with Washington.

One lesson learned from the first trade war during the first Trump term, is that China has more to lose from hitting back at U.S. tariff hikes with proportional levy increases, as the U.S. buys substantially more from China than the other way around. China's economy is currently vulnerable: weak domestic demand, deflation, a three-year long real estate debt crisis, provincial debt overload, slow growth, waning exports, less demand for imports, an aging population, higher youth unemployment, and low consumer confidence. Stimulus measures have so far not been effective. Stronger stimulus measures are now being enacted, including direct government funding to the private sector to boost activity and jobs across a range of industries. Couples are being encouraged to marry and help boost population growth and could receive government bonuses for having three children. A dramatic reversal from the government's 'one child' policy stipulated in the 1970's-2000.

According to press reports, several high-ranking U.S. business executives, academics, and government advisors have met with members of Chinese delegations which have visited Washington since the election. The Chinese effort amounted to a campaign to ward off tariffs, while their economy is in trouble. Now that the tariffs are on, the Chinese know their campaign has failed. Even as Washington ramps up pressure, Beijing is trying to project confidence. After the latest tariff actions, China swiftly retaliated. The Chinese government on March 4 suspended the import licenses of three U.S. companies —farmer-owned cooperative CHS Inc., Louis Dreyfus Co. Grains Merchandising, and EGT, which is partially owned by Bunge Global SA. The suspensions were due to the detection of ergot as well as seed-coating agents in soybeans exported to China, according to China's customs department. China's Ministry of Commerce added 15 U.S. companies to an export-control list and expanded the number of U.S. firms on its "unreliable entry" list. Several U.S. defense-technology companies were put on the export-control list.

The actions were taken on the day that the additional 10% tariff was imposed by the U.S. on various imported products from China, raising the overall total to 20%. China countered by imposing additional tariffs of its own, including a 10% tariff on U.S. soybeans and sorghum and a 15% tariff on U.S. wheat and corn. China's retaliatory tariffs are estimated to cover $21 billion worth of U.S. agricultural and food products. The tariffs announced by China's commerce ministry will take effect beginning March 10, though goods already in transit will be exempt until April 12.

Even before this latest round of tariffs, China's imports

of U.S. agricultural products had been declining. The world's top agricultural importer and second-largest economy brought in $29.25 billion worth of U.S. agriculture products in 2024, a 14% decline from a year earlier, extending the 20% decline seen in 2023. China has been building food and agriculture self-sufficiency as it attempts to reduce its dependence on imports.

Although China has reduced its dependence on soybean imports from the U.S. in recent years, it has remained the top market for U.S. soybeans. It purchased an estimated $11 billion worth of soybeans in 2024, about half of the US export total, according to Census data.

Separately, Beijing set an ambitious growth target of 5% for 2025, a signal that it expects the Chinese economy to resist the rising trade pressures. The Chinese Foreign Ministry took a defiant stance, saying, "*If war is what the U.S. wants, be it a tariff war, a trade war or any other type of war, we're ready to fight till the end.*"

The "America First" policy calls for dismantling the norms set up by the World Trade Organization since 1995. Under those norms, China has been able to flood the world with cheap exports while limiting foreign access to its own market. China's $295 billion trade surplus with the U.S. is the widest of any U.S. trading partner.

The Hoover Institution opines that the Administration believes that U.S. interests, especially those of American workers and companies, are harmed by the liberal international economic system that developed after the Soviet Union's collapse. To re-engineer that system, the new Trump trade team is focused on getting relatively favorable deals with everyone else first and let China stew in its current economic depression. Trump believes that the U.S. can strengthen its leverage over Beijing by individually renegotiating terms of trade with its other partners.

A presidential memorandum has directed federal agencies to conduct a series of reviews of the U.S.'s existing trade relationships. One key task for the new economic team is to cut deals with countries like Mexico and Vietnam, part of efforts to prevent Chinese companies from rerouting goods to the U.S. through third parties.

The effort to isolate China economically isn't limited to tariffs, which candidate Trump said could go as high as 60%. Other actions being considered by the U.S trade team—include restricting Chinese investment in the U.S. and U.S. investment in China, targeting industries dominated by China, such as shipbuilding, as well as further limiting the sale of high-tech products to Chinese companies. Rather than hurting the U.S., the administration believes export controls will make the U.S. economy stronger.

At the same time, President Trump has held out the prospect of making a fresh deal with China. Ultimately, the U.S. may push China to agree to make structural changes in the way it runs the economy—a deal that

President Xi is unlikely to accept given his emphasis on central control to manage the economy. China generally abhors what it sees as any outside attempt to challenge the Communist Party's governance.

As a template, is a proposed deal China rejected in May 2019, after rounds of intense negotiations with the U.S. during the height of the trade war with the first Trump administration. That deal proposed changes in Chinese laws to prohibit theft of American technology and to better protect American companies operating in China. Those changes China found unacceptable.

At this juncture, the U.S. isn't in a rush to negotiate with China because of the U.S.'s relative economic strength. The administration is developing leverage that can be used in negotiations. The Administration believes that the U.S. can take actions like tariffs, while simultaneously expecting that President Trump's personal relationship with President Xi can result in the two countries finding some common ground.

During the first Trump term, the U.S. policy toward China underwent a major makeover. The longstanding strategy of deepening economic ties and cooperative engagement with Beijing was replaced by one characterized by estrangement, including increased tariffs and tech restrictions.

Even though the Biden administration continued the assertive approach, they largely kept the relationship on an even keel. Scores of channels of communication with Beijing were revived under Biden. To the chagrin of Beijing, the second Trump term is both less restrained and more determined, paving the way for even more intense U.S.-China storms.

In meetings with U.S. business leaders and academia in recent months, China's leadership repeatedly conveyed Beijing's desire to be a partner with the U.S., not an outright adversary. The Chinese leadership team have studied President Trump carefully and developed a realistic view of the current situation, according to U.S. intellectuals who have met with President Xi and other senior Chinese officials in the past year. President Xi has been vocal about his effort to conceptualize the relationship as one where the U.S. and China are both rivals and partners simultaneously.

The U.S. newly imposed 20% tariff punch on Chinese exports has exposed pitfalls in Beijing's wait-and-see approach toward Washington. Since the initial 10% tariffs on Chinese goods in early February, China's leadership has been holding out for the U.S. to make specific demands, in hopes that those asks could lead to a broader discussion. China wishes to gain more than making a deal on fentanyl. Instead, China is hoping to engage in dialogue with the U.S. that could lead to a more com-

prehensive agreement and define the overall relationship between the world's two largest economies. China's envoy and Vice President who attended President Trump's January 20 inauguration, indicated Beijing's willingness to discuss a range of topics including fentanyl and trade. The latest 10% additional tariff was unexpected by the Chinese.

Germany

Germany has been in recession over the past two years, and the economy is so far registering zero growth this year. The country's GDP is exactly where it was five years ago, before the pandemic struck. A sluggish Germany flattens demand across the continent.

Plans were revealed by Germany's new Chancellor in waiting, Friedrich Merz, for important changes to the country's so called debt brake. This is a constitutional provision in place since 2009- that lets the government run only miniscule structural deficits. The German parliament is expected to vote on the proposed changes shortly. Mr. Merz moves shows that needed changes may be genuinely underway and suggests that his February election win was a vote for boldness.

The first reform will establish a brake-exempt infrastructure fund of $535 billion over ten years, a boost of 1% of GDP each year. This should help get the economy moving. The second proposal is even more consequential. It will exempt any defense spending beyond 1% of GDP from the debt brake altogether.

This opens the way for Germany to do what it should have done a long time ago. It can now start to rearm itself to a level where it can take full part in the changed landscape of European defense that Germany's size and geographical position demand.

A new NATO defense-spending target has not yet been

set, but most observers expect one to come soon. It will probably be in the region of 3.5% of GDP, or even a bit higher. During the Cold War, European countries typically spent 4.5%, and Europe is once again in a state of peril. The new U.S. Administration is not prepared to continue to bear the high burden of funding European defense. Europe is expected to look to its own defenses. That will require Germany to spend a lot more – and to spend it effectively.

Currently, Germany spends a mere 2% of GDP on defense, finally meeting a target that NATO first set in 2014. A target the government did not take seriously until Russia's all out invasion of Ukraine in 2022. The German government can take on close to 2 trillion euros in debt over the next decade without running the risk of damaging growth, according to a recently conducted poll of 28 Eurozone economists.

The poll estimates that Germany could raise its fiscal burden from its current 63% of GDP to 86% of GDP over the next decade without negative repercussions. The space to create more debt should be used to push Germany and the wider European economy towards urgently needed rearmament and infrastructure improvements, high-tech investments, as well as an effective green transition. Critical infrastructure, such as the inefficient rail system and digital infrastructure must be upgraded as a matter of priority.

Many participants in the poll stressed that the additional borrowing needed to be combined with structural reforms to raise Germany's productive capacity. It is left to be seen how the new coalition governs and how close they will be guided by the recommendations outlined. German industries are stuck in a middle-technology trap and the country needs to modernize its manufacturing. In addition, the economy is being held back by a too rigid bureaucracy and too high corporate taxes which has contributed to private sector under-investment.

Because the debt brake is a constitutional provision, amending it requires a two-thirds majority in parliament (the Bundestag). The hard-right Alternative for Germany party opposes any change to the rules, and the radical-left Die Linke opposes any extra defense spending. Both parties did well in the election; together they will have a third of the seats in the new Bundestag, a blocking minority. Thus, the proposed changes need to be made right now, before the new parliament is sworn in on March 25th. It is highly unorthodox, not least because Mr. Merz did not reveal the plans on the campaign trail. However, these are not orthodox times.

Additional reforms are expected as Germany take note of the rapidly changing geopolitical landscape and a more confrontational world. The need for the rest of Europe to get onboard with taking care of its own defense, while boosting regional economic activity, could not be more urgent.

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Trade Credit & Political Risk

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A debtor's nonpayment can be caused by commercial events such as insolvency or protracted default. On international transactions, nonpayment can also result from the occurrence of disruptive political events such as wars, government interventions, or currency inconvertibility.

A Few Value-Added Benefits For Insureds

FCIA's Trade Credit Insurance policies offer companies a wide array of flexible coverages. You can insure a broad multi-buyer receivable portfolio, a smaller select receivable portfolio (key accounts), or a single buyer receivable.

Some Value-Added Benefits of Trade Credit Insurance

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- Access to better financing terms
- Reduce earnings volatility
- Reduce bad debt reserves

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