



Trade Credit & Political Risk



Major Country Risk Developments October-November 2025



By Byron Shoulton

Overview



The global economy is undergoing a profound transformation and facing elevated uncertainty, which brings challenges, but also opportunities. Growth has been resilient, but strains are emerging. Countries are being pushed to adopt policies that foster confidence, build resilience, and safeguard macroeconomic and financial stability. Ongoing wars and conflicts continue to impose a heavy humanitarian toll, with large economic costs and significant negative spillovers.

Bringing deficits and debts under control would reduce pressure on interest rates, contributing to the health of global markets, and create more space for technology spending by the private sector.

The boom in artificial intelligence is driving global spending on information technology (IT) into unprecedented territory. A new forecast predicts that IT spending will rise 9.8% in 2026, crossing the \$6 trillion mark for the first time. The forecast captures spending on data centers, which is expected to surge 46.8% in 2025 and rise 19% in 2026. The question now is whether consumers and businesses will put all that infrastructure to sufficient use over the next few years.

As leadership approach differs across global markets, it is important to build an internationally diversified customer base while maintaining trade access globally.

USA

The U.S. has benefitted from relatively strong economic fundamentals despite imposing high tariffs on trading partners in the ongoing trade war. Yet it faces two challenges: an unsustainable fiscal trajectory and inflation trending higher than the central bank's target. While the worst-case expectation of a recession has not materialized, credit card and auto loan defaults have risen. The evidence shows that companies built up inventories of imported goods during the first half of 2025, as a defense of the pending imposition of tariffs. Then the administration lowered the tariffs imposed from the initially announced levels. Furthermore, we now know from Economic Intelligence Unit (EIU) analysis that companies absorbed greater portions of the tariffs (57%) instead of passing those additional costs on to their customers. This explains the resilience observed in the economy over the past three quarters.

The International Monetary Fund's (IMF) latest Fiscal Monitor shows the U.S. general government overall balance- a measure which includes interest payments on debt holdings- was set to be the highest of any rich nation tracked by the IMF for 2025 and the rest of the decade. The U.S., unlike most other wealthy nations, is not expected to make any progress in lowering its fiscal deficit from current levels. U.S. gross debt-to-GDP ratio, expected to be 125% of GDP this year, will surpass record highs to hit 143% by the end of the decade, according to the IMF's latest projections.

The U.S. — which has itself to blame for letting China tighten its grip, is belatedly planning to build a strategic mineral reserve while investors pour into U.S. rare earth companies. The U.S. Treasury secretary is to meet shortly with his Chinese counterpart in a bid to resolve the control of rare earths while preparing the ground for a summit between President Trump and China's leader Xi Jinping. The uncertainty is not contributing to stability, and it won't be great for global growth.



The recent collapse of auto-parts supplier, First Brands Group, and subprime auto lender, Tricolor Holdings, in the U.S. has reverberated across credit markets and left investors and banks nursing heavy losses.

Well over a decade before the recent collapse of First Brands Group, the company was battling creditors in court over millions of dollars in defaulted debts and fending off allegations of fraud. The company had always denied such accusations and moved on to assemble a new group of lenders to help form a conglomerate from a collection of factories making spark plugs, brake components and windscreen wipers.

This time, however, the company's borrowing binge coincided with a new boom in risky debt, and it enlisted big names in finance. How the company raised billions of dollars without much public scrutiny, after moving on from more conventional forms of borrowing, reflects trends in the private credit industry — lending by non-bank institutions that can often be opaque — and the broader risks created by its rise.

As questions grew around the finances of its owner, First Brands went in a matter of weeks from trying to borrow a further \$6 billion to filing for bankruptcy. A spokesperson for the company explained that First Brands experienced financial distress due to a perfect storm of

tariffs, volatile interest rates and well-known industry headwinds. With U.S. industry and commerce being reshaped by tariffs, the auto-parts sector's reliance on invoice factoring has come under scrutiny.

Some fear that, rather than a freak occurrence, First Brands and Tricolor are an omen of corporate flameouts to come after years of loosening lending standards. It has been revealed that First Brands, which in 2024 recorded losses of \$12 million, had racked up close to \$12 billion in both conventional loans and off-balance sheet financing. That was billions of dollars more than many of its lenders had realized. An investigation under way as part of the bankruptcy is probing whether the invoices and inventory underpinning much of the group's financing were pledged more than once or commingled between lenders. U.S. Department of Justice prosecutors are reportedly examining how so much money disappeared so quickly.



Many lenders now fear they may have fallen prey to a shell game, involving hidden off-balance sheet entities and phantom collateral. There are claims that more than \$2 billion extended by lenders simply vanished. Billions of dollars in losses have been collectively inflicted on big private capital names, as well as equipment leasing firms. Financial institutions in Europe, Asia and the U.S. are facing reputational damage for their dealings with

the company (that was scarcely known outside of credit markets until a few weeks ago). In addition, insurance companies may be on the hook after writing policies against the complex financial products that funded First Brands. Many remain baffled as to how First Brands was able to convince experienced lenders and risk managers to back the company to the extent they did. Many now suspect lenders had done only cursory checks on First Brands's business record in haste to package the company's debt up into tradeable securities.

Several asset-backed finance specialists either refused to do business with First Brands or had earlier cut existing credit lines after the company was unable to produce requested documents. Other potential lenders claimed to have received unsatisfactory answers when asking straightforward questions about First Brands financial statements. Many analysts noted that the company's reported margins far exceeded those of its competitors.

By summer of 2025, First Brands brought to market its biggest deal yet, a \$6 billion loan to refinance its existing debt. Auditors had given the company's accounts a clean review months earlier, but investors were increasingly wary. Facing more questions than usual about the company's finances, lenders agreed to hit pause while First Brands commissioned another audit to report on its use of off-balance sheet financing to allay lenders' concerns.

First Brands only avoided full-scale liquidation due to a new \$1.1 billion rescue loan from its largest lenders. Until recently, many of First Brands' mainstream lenders were unaware that the group had also raised billions of dollars backed by its inventory through off-balance sheet "special purpose entities." After the bankruptcy, nearly \$2 billion that First Brands received and which was to be held in a segregated account was at zero. First Brands bankruptcy has now captured the attention of regulators around the world, eager to learn whether this is a one-off situation or a symptom of a more systemic malaise affecting one of Wall Street's favored forms of financial innovation.

Looking ahead into 2026, the risk of correction in the financial markets has increased. Tech firms are vulnerable to the risk that soaring valuations will drop sharply amid potentially disappointing progress around artificial intelligence (AI). The minutes of the Federal Reserve's latest meeting stressed that on several measures, equity market valuations appear stretched, particularly for technology companies focused on artificial intelligence. This, when combined with increasing concentration within market indices, leaves markets particularly exposed should expectations around the impact of AI become less optimistic. There is a risk that disappointing progress on AI capability or adoption, or increased competition could drive valuations lower across the sector.

Material bottlenecks to AI progress including across power, data, or commodity supply chains- could also harm sentiment, particularly for firms which are expected to benefit from greater AI investment. In addition, conceptual breakthroughs which change the anticipated AI infrastructure requirements for the development and utilization of powerful AI models could also harm valuations, expectations and alter the medium-term out-

look. The U.S. economy is facing challenges, including softer job growth, the impact of tariffs, and policy uncertainty, which are weighing on consumer spending. U.S. consumers are responsible for about 70% of U.S. GDP growth.

This backdrop, together with growing confidence that any tariff-induced inflation spike will be one-off, should allow the Federal Reserve to respond with several interest rate cuts this year-end and in the first quarter of 2026. As the yield advantage shrinks, the U.S. dollar would thus be likely to resume its downward trend.

Although we are likely in the later stages of the current equity bull market, there is some optimism about the prospects for investors to bet on U.S. manufacturing and AI power generation needs. Within the U.S., the top performers are still a small group of exceptional companies with robust earnings growth, particularly those in the artificial intelligence space. Notably tech stocks continue to outpace the broader S&P 500 index in terms of capital expenditure growth.



Asia

Asia's economic growth next year is poised to hold up more than previously estimated despite weaker external demand, elevated tariffs, and persistent policy uncertainty. Growth in the Asia and Pacific region is likely to slow to 4.1% in 2026 from 4.5% this year, according to IMF projections. Inflation is likely to remain moderate.

While Asia is at the center of the global trade-policy reset, it will remain the biggest driver of global growth, contributing to about 60% this year and in 2026. The shock from trade tensions has been cushioned by a front-loading of exports ahead of new levies, stronger-than-expected investment in artificial intelligence, ongoing supply-chain reconfiguration within the region, and policy easing in some countries.

However, several risks to the outlook undermine this resilience. These risks include renewed escalation of tariffs and more rules-of-origin restrictions to avoid transshipments, further supply-chain disruptions, and tighter global financial conditions.

Trade remains a key part of the resilience narrative. The raising of effective tariff rates by the U.S. to multi-decade highs remains high even after various pauses, agreements, and reinstatements. Exporters accelerated shipments ahead of implementation during the first half of 2025, contributing to a surge that cooled in the following three months.

There is also more to the story than shifting trade and tariff policies. Drawing on lessons from the 2018 tariffs, production and sourcing are shifting within the region, with a larger share of intermediate goods flowing to—and through—Southeast Asia and other hubs. Parallel to this regional trade boost is a powerful AI-driven cycle that has bolstered exports of advanced technology from economies including Korea and Japan, deepening intra-Asian trade.

These dynamics are reinforced by monetary easing across many economies and targeted fiscal support in some, notably China, Korea, Indonesia, and Vietnam. This helped support economic growth and cushion the external-demand shock. Financial conditions also eased across much of Asia, reflecting the depreciation of the



dollar, compressed credit spreads, higher stock-market valuations and, in emerging economies, lower government bond yields.

Beyond near-term resilience, a weakening in historical growth engines is compounding the effects of the uncertain trade environment. Aging is diminishing the demographic dividend in some major economies. Productivity growth is slowing because investment is not always reaching the most dynamic firms. In addition, with post-pandemic scarring still weighing on domestic demand, especially in emerging Asia, external imbalances have widened. Moreover, recent unrest underscores how a lack of jobs and other opportunities are fueling social strains, particularly where institutions are weaker and perceptions of corruption are widespread.



The task for policymakers is to convert today's resilience into strong, durable and inclusive growth that harnesses new drivers to better realize economic potential. In coming months, policies should focus on absorbing recent shocks and lowering policy uncertainty. With inflation below target in many economies, measured monetary easing remains appropriate. Exchange-rate flexibility should help absorb shocks, with intervention reserved

for disorderly conditions, in line with the IMF's Integrated Policy Framework. Temporary, targeted fiscal measures can protect the most vulnerable people and support viable businesses. In addition, reform policies, including concerted streamlining of regulations and improving the business environment, will be essential to unleashing the role of the private sector.

In coming years, economic policies should prioritize securing durable growth and expanding the share of private consumption in the economy. Successful rebalancing can be achieved by strengthening social safety nets so that people don't feel obligated to save precautionarily. It will also be important to scale back industrial policies. Japan's growth is projected to decelerate from 1.1% to 0.6%.

South Korea's growth is projected to accelerate from 0.9% this year to 1.8% in 2026. The Association of Southeast Asian Nations (ASEAN) economies are projected to expand by 4.3% for a second straight year.

Resilience endures but mounting headwinds are straining a growth engine already challenged by the trade-policy reset. Regional economies will likely rebalance toward domestic demand, fortify medium-term fiscal frameworks, and deepen regional trade and financial integration to keep growth durable. Nonetheless, foreign trade will remain a priority to stay competitive.

China

In China, where the real estate markets remain strained and consumer sentiment is down, repairing balance sheets and completing pre-sold homes can help restore confidence in housing markets and ultimately boost private consumption.

China's new five-year plan is expected to prioritize more high-tech manufacturing and encompass artificial intelligence, new energy, new materials and future industries such as brain-computer interfaces. The 14th 5-year plan

which ends this year contributed to breakthroughs in green technologies, such as electric vehicles, which have threatened core industries in Europe and the U.S. Once vital to China's former command economy, Beijing today uses the five-year plans to outline its political and economic priorities, making them keenly watched by foreign governments and investors. China's economic growth is forecast to slow from 4.8% this year to 4.2% in 2026.

Abroad, China continues to be plagued by political and trade tensions with flashpoints such as the Dutch government's takeover of chipmaker Nexperia. China's investment in Europe has also hit a wall following a wave of projects after the Covid-19 pandemic, focused on building battery and electric vehicle factories.

However, China continues to hold several cards, notably in raw materials such as rare earths, where it has announced sweeping export controls. This caused the U.S. to threaten additional 100% tariffs on Chinese imports starting November 1. Then, President Trump appeared to walk that back, noting that the additional 100% tariff was "not viable" after the U.S. equity markets reacted negatively. China responded without any specific threats of retaliation. Instead, China's Ministry of Commerce issued a statement promising to implement the new export controls in a "prudential and moderate manner"- maybe an admission that it has overplayed its hand. Beijing has signaled a softer stance on the disruptive rare-earth export controls, without an indication of a full reversal.



The U.S. Treasury Secretary has warned that if Beijing does not retract its threat to restrict the export of rare earth minerals, the world will have to decouple from China. For its part, China called the U.S. administration's threat to impose 100% tariffs on China "a typical example of U.S. double standards."

China is well positioned for the trade slowdown with the U.S., and the proposed summit between the leaders of both countries, reflects an uneasy cold-war-style trade truce between them. Each side choosing not to inflict maximum damage on the other, while in the meantime, racing to improve technology and build global alliances to gain leverage.

The U.S. has been trying to publicly de-escalate tensions with China to soothe markets while privately keeping up pressure on Beijing- a difficult balancing act. U.S. companies doing business in China are hopeful that both sides will avoid another round of triple-digit tariffs. That will be bad for both economies.

The U.S. is eager to have a deal in place with China, reflecting a growing realization that even if the U.S. could replace all the goods it imports from China, for certain key commodities, China is far and away the dominant supplier. The most obvious category is the rare earth and critical minerals whose export China is now threatening to severely restrict. If these restrictions were to come into force in December as proposed, it wouldn't be long before some U.S. production lines grind to a halt. However, China would have to restrict exports to the rest of the world-otherwise the U.S. would likely be able to buy the materials through third parties. Still, some believe the U.S. may have lost good will by imposing tariffs on friendly countries as much as it has on less friendly ones- which may cause pushback.

Both sides appear to escalate rhetoric in this ongoing trade war, while at the same time sending signals that dialogue is needed to help reach a compromise. Nonetheless, there should be no mistake that neither side will bow out gracefully. The Chinese are aware of their

strengths, while the U.S. is committed to fighting for a fairer trade playing field.

Canada

The U.S. and Canada hinted at a breakthrough in trade tensions after both President Trump and Canadian Prime Minister Carney met in early October. While there were no firm commitments both leaders appear to signal that the effort to mend fractious bilateral relations and rescue the \$1.3 trillion trading relationship had made progress.

The U.S. has hit Canada with devastating levies on its steel, aluminum and lumber industries that are highly integrated in cross-border trade. The U.S. imposed high tariffs on automobiles. Canada's economy has suffered as a result, shrinking more than expected. Canadian exports fell 7.5% in the second quarter compared with the first three months of 2025 due to tariffs. The U.S. outlined cross-border competition where the U.S. is hurt by Canadian farmers, its auto industry and steel production.

The Canadian PM advised that Canada was ready to invest heavily in the U.S. over the next five years and stressed that the two countries were "stronger together." Both leaders expressed confidence that they will conclude a good deal.



In September, the U.S. administration launched a formal review of the future of the U.S.-Mexico-Canada Agreement (USMCA), which governs hundreds of billions of dollars in goods flowing between the U.S., Canada and Mexico. President Trump has raised the possibility that that separate deals could be renegotiated with each country, without providing details.

Canadian negotiators are reportedly moving very quickly to secure deals with the U.S. There is a strong desire to see how Canada can structure deals specifically with the steel and aluminum sectors that would be in the economic and security interests of both countries and thereby improve the current state of uncertainty that has rattled the relationship between both countries. The current state of the relationship is hurting companies and workers on both sides of the border, hence the need for concluding an agreement.

India

India's GDP is still expected to expand at a healthy pace of 6.6% this year, the most among major emerging economies, while growth is expected to slow to 6.2% in 2026.

India's shoestring budgets for research and development leave it dependent on strategic rival China for the technology it needs to boost manufacturing. The country's leading steel company is preparing to launch an electric vehicle brand and disclosed ongoing discussions with several Chinese EV manufacturers to bring technology to India for an expected EV launch by June 2026. The Indian government has sought to boost domestic manufacturing, with a focus on EV's, smartphones and semiconductors. It has offered corporate tax incentives and consumer subsidies to get this project going. Batteries- a core component of EV's- are one of the biggest hurdles. India must import cells from China, Japan and South Korea, as domestic production is forecast to meet just 13% of demand.

Facing increasing pressure from the U.S. to buy Amer-



ican grain the difficult trade negotiations have pushed India's farmers' complaints to the center of national debate. The possibility of a flood of cheap U.S. agricultural imports would hand the opposition party fresh ammunition to attack Prime Minister Modi. India has historically excluded agriculture from trade pacts, as such a move would hurt millions of poor farmers, a powerful voting bloc. India has one of the world's biggest agricultural sectors in terms of workforce and output, and successive governments have avoided reforming the sector. Nearly half of the country's workforce are employed in agriculture, which accounts for about 20% of India's GDP.

India currently imposes tariffs of 70-80% on U.S. rice, 15-20% for corn and 30-60% on dairy products. Indian negotiators have acknowledged that that disagreements over U.S. agriculture are a major sticking point to reach-

ing an agreement. India might end up having to make concessions on agriculture to the U.S. While India is unlikely to open the farm sector entirely, it could allow imports of some corn for ethanol production and set quotas for other products.

India is one of the countries hardest hit by the U.S. trade war, facing 50% tariffs. The U.S. says the higher levies were in response to India's large purchases of Russian crude. However, President Trump recently disclosed that India had decided to reduce the amount of Russian oil it buys. If not, the U.S. has vowed to keep the 50% levy in place. The suggestion is for India to purchase an additional \$15 billion of U.S. oil at the "right price" while maintaining a diversity of sources for its other crude supplies. Russian oil is still the cheapest available to India, which has continued its purchases despite U.S. threats.

While several large U.S. trading partners have managed to strike deals to lower punitive U.S. tariffs on their goods, India has failed to clinch any agreement, despite being offered a carve-out from tariffs for consumer electronics, pharmaceuticals and semiconductors. The leaders of both countries are expected to meet at a summit of Asian leaders in Malaysia at the end of October.

Latin America & the Caribbean

Growth in Latin America and the Caribbean experienced no major disruptions in the first half of 2025, and it is projected to remain steady with 2.4% GDP for the full year, while moderating slightly next year. Nonetheless, risks are clearly tilting to the downside.

Despite the uncertainty, global conditions have been broadly supportive in the region. Commodity prices, for example, have stabilized after a period of volatility in the first part of the year, financial conditions have eased amid declining sovereign spreads, and a weak U.S. dollar in comparison to last year.

Importantly, regional exports have kept pace with global trends of readily firm trade. Domestically, labor markets remain robust, generally supporting private consumption in most economies. Also, low exposure of many economies to the U.S., lower tariffs for the region in comparison to other regions, also have provided some buffers. Against this background, macro-economic policy calibration remains a challenging topic in several countries.





While most countries have strengthened their physical positions, the reality is that structural primary balances today remain lower than anticipated, indicating unwelcome delays in fiscal consolidation. There are good plans, but plans are usually postponed. In fact, with public debt ratios rising in the region, fiscal consolidation is increasingly important to mitigate risks of the compression of risk premiums. Insufficient fiscal effort also complicates not only debt sustainability, but the effectiveness of monetary policy.

Inflation remains above target in some countries amid relatively more balanced risks in comparison to output. Robust labor markets and fiscal concerns are slowing disinflation, but at the same time, the recent exchange rate appreciation is helping in some cases. Central banks in the region have responded appropriately. They remain data-driven, and inflation expectations are stable but also remain a bit above target. Continued caution is warranted in this case, especially in countries where economic slack is not evident and inflation remains above target.

Looking ahead, the region's potential growth remains stuck at low levels, clearly lagging emerging market peers around the world. This reflects slowing labor force expansion, low capital accumulation, and especially stagnant productivity.

We see that reforms to enhance central bank independence have helped a lot in the region and the achievement of price stability. However, evidence on how high public debt and deficits can constrain monetary policy. So, to safeguard price stability, countries must focus on advancing fiscal consolidation and improving fiscal frameworks. Lower debt levels also make monetary policy more effective, adding to the convergence to inflation targets.

The second analytical effort investigates some drivers of low productivity growth in the region. Exploring firm-level data shows that this is partly explained by persistent resource misallocation and sluggish productivity growth among firms. More productive firms in the

region tend to face barriers in expanding, which calls for reforms to address these frictions, which include safety-based regulations, including taxes, financial constraints, and limited competition.

In Argentina, the sitting Milei government fell into crisis in September after a landslide loss in local elections in Buenos Aires province, where almost 40% of Argentines live. The results have cast doubt on the level of support in Argentina for President Milei's free market reforms. The U.S. administration's moves to help the Milei government ahead of upcoming midterm elections in Argentina have attracted criticisms across the U.S. political spectrum.

An agreement for a \$20 billion currency swap credit line to the central bank, is to be further enhanced by a plan to have U.S. banks provide a private sector backed \$20 billion loan in support of Buenos Aires (although no deal has been reached). The U.S. has also been intervening directly in currency markets to support the Argentine peso. Given Argentina's long history of mismanagement and repeated defaults, there is scant confidence that the current U.S. government support will rescue the country this time around.



Fury in the U.S. farming sector increased further when the U.S. government said it plans to buy Argentine beef, arguing that the South American country was fighting for its life. U.S. cattle farmers and their communities voiced strong opposition. The backlash is compounded by China's plans to replace soybean orders from the U.S. with large-scale purchases from Argentina – because of the trade tensions between Washington and Beijing. In other words, the U.S. is viewed by farmers as supporting a rival agricultural exporter. This follows the loss of billions of dollars in U.S. farm exports to China, which are believed to have been replaced with large scale Chinese imports of soybeans from Brazil.

The IMF remains closely engaged with the region through policy advice, capacity development, and financial support. In terms of IMF program engagement, Barbados completed its arrangement under the Extended Fund Facility and the Resilience and Sustainability Facility, and a new Flexible Credit Line, an FCL, has been launched with Costa Rica, while Colombia cancelled its FCL.

In sum, the global landscape is shifting, but this is not a reason for inaction. Countries may not control the winds - but they can adjust their sails. Reinforcing policy frameworks, rebuilding fiscal buffers, fostering growth opportunities and staying connected to relevant global supply chains are sails that require ongoing adjustments in an uncertain environment.

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Trade Credit & Political Risk



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Companies selling products or services on credit terms or financial institutions financing those sales face the risk of non-payment by their buyers.

Trade Credit Insurance provides a cost-effective mechanism for transferring that risk. FCIA's Trade Credit Insurance products protect the policyholders against losses resulting from that non-payment.

Why Trade Credit Insurance?

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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 convertibility.

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

- Sales expansion
- Ability to offer longer repayment terms
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- Reduce earnings volatility
- Reduce bad debt reserves

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