Major Country Risk Developments
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Overview

Companies in the U.S. and Europe that have borrowed on the cheap for years are facing the return of the once-familiar fear: rating downgrades. Borrowing costs have soared since the Federal Reserve started pushing up benchmark interest rates to curb inflation. Investors now demand annual interest payments of about 9% a year from U.S. businesses with low scores from rating agencies, up from below 5% a year ago. This means that some companies are steering clear of taking on extra debt to fund expansions or takeovers, instead relying more heavily on equity capital to keep their ratings in place. Sub-investment grade market access is not only difficult, but it is expensive.

When benchmark interest rates were low in the years following the financial crisis, and when central banks were buying bonds to support the system, companies could afford not to worry about ratings. But today, even safe, investment-grade companies in the U.S. must pay an average of more than 5.7% to borrow in the bond market, up from just 2% two years ago.

The sharp increase in interest payments - and the wider gap in borrowing costs between high - quality and speculative-grade issuers- has sparked concerns over potential credit downgrades, while suppressing appetite for debt-financed transactions that could jeopardize a company's ratings.

Signs of persistent inflation have killed an early 2023 bond rally, with markets now betting that U.S. rates will stay higher for longer – possibly topping 5% through the end of 2023. They now stand in a range of 4.5% to 4.75%. That shift has led to some big swings in bond markets- bad news for lower-rated would be borrowers.

S&P Global ratings found that a quarter of triple B rated borrowers, those at the bottom end of investment grade ratings, from U.S. consumers products sector have cut their long-term leverage targets over the past year, partly due to higher interest rates. High borrowing costs and a lack of clarity over the economic outlook have led more companies to contemplate equity financing, including convertible bonds. These include an option allowing investors to swap debt for equity if a company's shares rise to a certain price. They can allow issuers to borrow more cheaply than a normal bond, meaning there is less extra risk of a downgrade.

Meanwhile, global trade was projected to return to more normal levels this year as U.S. and European importers ran down excess inventories that were built up last year to counter supply chain disruptions. The world's largest commodity trading houses confirm that while 2022 was a record year for profits, it is unlikely to be repeated in 2023. The large trading houses benefited from their access to capital last year, allowing them to keep trading even in extremely volatile markets when capital requirements increased. While some of that volatility in commodity markets

has cooled, there is the expectation that wilder trading patterns will return in the years ahead – triggered by continued trends toward energy transition.

USA

While the overall U.S. economy continues to chug along, fears of a broader contagion from the recent banking sector stress have receded. The Federal Reserve in March continued to raise interest rates to cool inflation. Oil analysts see at least one warning sign for energy markets. Demand for diesel has dropped nearly 12% from a year ago, contributing to unusual growth in U.S. oil stockpiles for most of 2023. That slip in demand for diesel has come as some diesel-reliant industries saw a decline in borrowing and business activity. Companies in construction, agriculture, metals and mining last year sold less than half the bonds than in 2021, suggesting that financing for new projects is tightening.

The U.S. manufacturing sector in February reported its sixth consecutive month of declining orders for products such as carpeting, furniture and appliances. Rising interest rates have slammed lending and forced home-building companies to pull back from single-family home construction, idling work vehicles and diesel-driven equipment including excavators. In addition, imports via container ships tumbled in recent months as retailers such as Costco Inc., and Walmart reported pulling back on orders.

In response, some logistics companies have cut employees' hours and are bracing for possible layoffs if things do not improve.

Russia has continued pumping crude oil despite Western sanctions. The U.S. has remained awash with adequate supplies due to the Administration's emergency release of oil reserves. Meanwhile, the anticipated economic rebound in China which underpinned projections of a commodity boom this year, have not yet taken off fully. Instead, oil producers and traders that reaped huge profits in 2022, remain uncertain about whether a slowdown in the U.S. and Europe will materialize, thus dimming the global outlook.

The tremors that surfaced in Western banking during March have further magnified that uncertainty. The banking sector stress led to a selloff in energy stocks. The S&P 500 energy sector slid 6.2% during the first quarter, a decline only outpaced by financial stocks. Some investors reportedly fear that crude's China-driven rally will be slowed by an unpredictable outlook for U.S. and European industries heavily reliant on gasoline, diesel, and jet fuel. The question for many is whether China's appetite for oil will grow, thereby boosting prices, before the U.S. and European hunger for energy subsides. The consensus continues to favor an uptick in China based on travel patterns, shipping routes and air-travel numbers - hinting that the country's post-pandemic recovery is gaining steam.

China

Profits at Chinese industrial groups slumped 22.9% in January through February, according to official data, further underscoring concerns about the economy's rebound. Workers in one of China's busiest export provinces are said to be struggling to get jobs as the global economic outlook appears to weaken and tensions with the U.S. push manufacturers to relocate factories outside China. Taiwanese owned export focused factories operating in China's Jiangsu province are reporting having to cut back operations in response to falling exports. Chinese exports have declined in dollar terms for five consecutive months since last October as western buyers reduced orders amid high inflation and a gloomy economic outlook. Factory headcounts have been reduced and companies have cut hourly wages by up to one-third.

Labor market weakness has been exacerbated by Taiwanese manufacturers relocating production to other countries (e.g., Vietnam, Cambodia, India) to limit exposure to U.S.-China tensions -which seem to be rising almost daily. Still, the IMF is predicting GDP growth of 5.2% in China this year.

While China's recovery is so far weaker than expected, large shipping companies report that shipping volumes associated with the Chinese economy remains resilient with little sign of negative impact from U.S.-led efforts to 'decouple' from China. The country imported 11.4 million barrels of seaborne crude in March according to recently released data, the second-highest monthly total on record. Also, a hiring spree of supertankers to transport crude, refined fuel, and iron ore to China over the coming months, provides further evidence that the pick-up in activity in China is likely to gain some momentum in the weeks and months ahead.

In the last year India displaced Europe as Russia's top customer for seaborne oil, snapping up cheap barrels and increasing imports of Russian crude 16-fold compared to before the war. Russian crude accounted for a third of India's total imports.

Meanwhile, U.S.-led international sanctions on Russia have begun to erode the U.S. dollar's decades-old dominance of international oil trade deals. Since the war on Ukraine, India has become a top buyer of Russia's seaborne crude. These deals are being settled in currencies other than the dollar.

The dollar's pre-eminence has periodically been called into question and yet it has continued because of the overwhelming advantages of using the most widely accepted currency for business around the world.

India's oil trade, in response to the turmoil of sanctions and the Ukraine war, provides the strongest evidence, so far, of a shift into other currencies that could prove lasting. India has become the world's number three importer of oil and Russia became its leading supplier after Europe shunned Moscow's supplies following its invasion of Ukraine in February of 2022. After a coalition of countries opposed to the war, imposed an oil price cap on Russia last December 5, 2022, Indian importers of Russian oil have paid for those deliveries in non-dollar currencies, including the UAE's dirham and Russian rubles. Those transactions between January and March this year total the equivalent of several hundred million dollars.

The Group of Seven economies (G7), the European Union and Australia, agreed to the price cap late in 2022 to bar western services and shipping from trading Russian oil unless sold at enforced price of $60 to deprive Moscow of funds to finance its war.

Some Dubai based traders and Russian energy companies Gazprom and Rosneft are seeking non-dollar payments for certain niche grades of Russian oil that have recently been sold above the $60 per barrel price cap. Those transactions represent a small share of Russia's total sales to India and do not appear to violate the sanctions, which U.S. officials and analysts predicted could be skirted by non-western services such as shipping and insurance.

Certain Indian banks backed some of those transactions. India has prepared a framework for settling trade with Russia in Indian rupees should ruble transactions be cut off by further sanctions.

Continued payment in UAE dirhams for Russian oil could become harder after the U.S. and Britain in March added Russia and Abu Dhabi-based Russian bank MTS to Russian financial institutions on the sanctions list. MTS had reportedly facilitated some Indian oil non-dollar payments. Indian refining sources confirm that most Russian banks have faced sanctions since the war, but Indian customers and Russian suppliers are determined to keep trading Russian oil.

Paying for oil in dollars has been the universal practice for decades. By comparison the dollar's share of overall international payments is much smaller at 42%, according to data from payment system SWIFT. While the dollar's strength is unmatched, the sanctions could undermine the West's financial systems while failing to achieve their objectives. Some view the sanctions as the west weakening the competitiveness of its own financial services by adding yet another administrative layer. The price cap coincided with an EU embargo on imports of Russian seaborne oil, rounding off bans and sanctions, including expelling Russia from the SWIFT global payments system after the Ukraine invasion. Around half of Russia gold and foreign reserves, which stood at $640 billion were frozen.

In response, Russia sought payment for its energy in the currency of "friendly" countries and ordered

"unfriendly" EU states to pay in rubles. For Russian firms, as payments were blocked or delayed even if they were not violating any sanctions, due to overly zealous compliance – dollars became a potentially toxic asset. Russia needs to trade with the rest of the world because it is still dependent on its oil and gas revenues so Russian traders have been forced to consider all options.

Building a direct infrastructure between the Russian and Indian banking systems is one example. India's largest lender State Bank of India has a foreign currency account in Russia. Likewise, many Russian banks have opened accounts with Indian banks to facilitate trade.

The IMF has opined that sanctions on Russia could erode the dollar's dominance by encouraging smaller trading blocs using other currencies.

Even beyond Russia, tensions between China and the West are also eroding the long-established norms of dollar-denominated global trade. Russia now holds a chunk of its currency reserves in renminbi while China has reduced its holdings of dollars. Russia has agreed to sell gas supplies to China for renminbi and rubles instead of dollars.

Africa

In March, Africa's first Chinese-owned lithium concentrate plant started up trial production at Arcadia in Zimbabwe. That mine was bought by Huayou Cobalt in 2021 for $422 million, part of a recent billion-dollar wave of Chinese lithium deals in a country where western investors fear to tread. With this first wave of Chinese investments taking place in search of securing long-term supplies of lithium, there appears to be an awakening among western companies.

More than just lithium is at stake, however. From Brussels to London to Washington, concern over access to critical minerals is at an all-time high after the Russian invasion of Ukraine and amid escalating tensions between the west and China. The fact is that China has built a dominant position in many of the minerals that are crucial for the energy transition, including cobalt, lithium, and rare earth metals.

The west is planning to spend hundreds of billions of dollars to catch up. Across the African continent, it is clear that the Chinese area head in this having gotten to the source first. After Zimbabwe, Namibia is the next country in Chinese investors sights. Last month Huayou Cobalt also gained a foothold in Erongo, Namibia with a small but symbolic investment in Askari, an Australian firm exploring in Zimbabwe. Xinfeng, a Chinese exploration company active in Erongo, has mined tens of thousands of tons of raw lithium ore and shipped it to China.

Known as "white gold," lithium is among the lightest of solid elements. Its high electrochemical potential makes it critical to electric vehicle batteries. It is produced from the brines in Latin America or hard-rock ore bodies in Australia- the leading producer- and other parts of the world including Africa and China itself.

Lithium is abundant across the world, meaning that there should be enough to go around if money is pumped into the right projects. The challenge is timing: the rapid uptake of electric vehicles is expected to drive a fivefold increase in lithium demand by 2030.

The European Union and a growing number of U.S. states such as California and New York want to stop selling petrol and diesel cars by 2035, a deadline that leaves little lead time to discover good lithium deposits and develop them to consistent production. Fearful of deeper shortages later this decade, carmakers have been investing in mines wherever they can.

If Africa can rapidly bring lithium projects online this decade, it will go a long way to fixing a bottleneck in the energy transition. The African continent is expected to supply a fifth of the world's lithium by 2030. Chinese financiers appear far more willing to take big risks than western development and commercial banks in a number of countries. While U.S. and European officials have been promoting African partnerships and compiling lists of crucial minerals, Chinese investors have, not only been buying up African mines to produce these minerals but building refineries at home to process their output.

China is out front when it comes to converting the metal to raw material for batteries. The International Energy Agency puts China's share of global refining capacity at 58% currently. Until similar facilities are operational in Europe, the U.S. or in Africa itself, China will be the main customer for Africa's lithium. While Africa is closer to Europe and shipping the product to somewhere in Europe would make economic sense, China has already put a lot of infrastructure in place.

Chinese companies invested in lithium supplies in Africa and Latin America even when lithium prices were low. As Australia builds domestic processing plants for its own mineral riches and after the Canadian government ordered Chinese investors to divest from certain Canadian mining companies, China is doubling down in those two developing regions. In the Democratic Republic of Congo and Ghana, the mantra is that the Chinese put money into lithium deposits long before anyone else did. However, claims of bribing government officials to obtain licenses have brought about several disputes between Chinese contractors, investors, and host governments.

There are other reasons for investors to hedge their bets. Lithium is volatile; prices for lithium hydroxide soared throughout 2022 and peaked at $80,000 per ton in December but have since dropped to $55,000. Although that is still almost four times the long-term average of about $15,000, the dip has led some western miners to come under pressure from investors to moderate their investment plans-even as Chinese firms push ahead.

Faced with China's dominance of the lithium supply chain, western officials are pitching their investments offer to African countries as a more socially responsible alternative. But that only goes so far when confronted with challenges on the ground, which range from lack of transport infrastructure to corruption and capricious politics. The quicker the west comes to terms with the fact that this is a business environment, the quicker the west will find it has an opportunity to get a foothold. African governments need to start working on cross-country logistics and infrastructure if they really intend to open up Africa. But it is slow going. The U.S. cited working a full year to secure western operators for the Lobito Corridor, one section of a railway that stretches across the continent from Angola's Atlantic coastline through DRC's mineral-rich Katanga region and the Zambian copper belt to Dar es Salaam in Tanzania. curb-market exchange rates.

In March, the London-listed developer of a Ghanaian lithium mine to supply the U.S. was accused of bribing government officials to secure licenses. It denies the claim, which it says is false and misleading. Zimbabwe's lithium boom also comes with the unpredictable politics of the ruling Zanu-PF government. In December, Zimbabwe banned exports of raw lithium ore to stifle informal mining and favor local processing, but the decision could increase project costs.

Even if it ends up partly processed at home, landlocked Zimbabwe's lithium would still need to cross a border to get to the global market. Many other African lithium projects are far from ports.

Lithium metal from Manono in Zimbabwe will require building a 630 kilometers road just to get to the Zambian border, where queues as long as 70 kilometers have held up trucks laden with copper and cobalt. An upgrade to the route has been mired in a dispute between the government and a Chinese contractor.

South Africa

The economy shrank more than expected at the end of 2022 after being battered by rolling power blackouts imposed by the Eskom electricity monopoly.

Fourth-quarter activity in Africa's most industrialized economy fell 1.3% from the previous three months, a period when breakdowns at Eskom coal plants forced extended power cuts almost every day.

The outages have since intensified forcing President Cyril Ramaphosa to declare a state of disaster and appoint an electricity minister to tackle the crisis. The governing African National Congress is preparing for elections in 2024 when its long-held majority is at risk from popular anger over the blackouts and the impact on the economy and on households.

The latest contraction confirms that South Africa's GDP has been largely flat since the end of 2019, even as the country's population has increased 3.5%. The economy grew just under 1% during the fourth quarter compared with the same period in 2021, well below the forecasts of private and government economists.

The central bank (South Africa Reserve Bank) estimates that the rolling blackouts cost the economy about $50 million each day in shuttered factories, closed shops, and malfunctioning infrastructure. It forecasts that GDP growth in 2023 will be a meagre 0.3% as a result.

The power crisis has also put pressure on the public finances after the National Treasury announced in March that it would backstop $14 billion of Eskom's debts in the coming years to prevent its financial collapse. This has forced the Treasury to delay announcing targets to stabilize public borrowing as a share of GDP. The weak growth trajectory is unlikely to improve any time soon as the severe power cuts and fiscal consolidation continue to weigh on the economy. Many South African businesses have been forced to stock up on diesel for generators to remain open for business during outages, often at the expense of other investments and hiring. A leading supermarket chain confirmed that it spent $430 million on generator diesel supplies in the last half o f 2022, hitting profits despite strong sales growth.

The leading business lobby group remains dissatisfied with the government's attempts to address the crisis. It criticized the appointment of the new electricity ministry as insufficient and unlikely to lead to significant progress in the short-term. The ongoing cost to the economy in terms of growth and investment has been devastating, as is the impact on the everyday lives of South Africans who are already dealing with considerable hardships.

Additional complaints regarding South Africa's squandering of its position as Africa's most industrialized economy have come from leaders in the mining sector. Not only is their widespread frustration over the government's failure to resolve the blackouts; but the poor conditions of the country's state-owned freight, railways and ports are interrupting vital mining exports. The leading mining industry groups have warned that South Africa is running out of time to tackle what is calls the "three scourges" of power cuts, broken logistics and corruption, reflecting rising corporate frustration with President Ramaphosa' s leadership and the ANC's lack of serious resolve to implement long-needed reforms and its failure to address endemic corruption.

The warning from South Africa's biggest investors is a sign of the darkening mood among businesses toward the president and the ANC. Eskom is imposing blackouts for up to 10 hours each day as a fleet of aging coal plants keep breaking down, while Transnet the freight railway network is falling into disrepair as derailments and cable thefts continues unabated. Anglo American, which has invested more than $6 billion in South Africa over the past five years, formed a joint venture with EDF (France) in 2022 to invest in renewable power projects in South Africa, part of a limited liberalization of energy supplies under Mr. Ramaphosa to deal with the Eskom crisis.

South African miners are increasingly alarmed at the crisis in Transnet, which controls vital supply lines but says it lacks spare parts for trains and security to run them. Mining companies including Anglo American have called for more lines to be operated jointly with the private sector in response.

Rail disruptions last year caused coal exports from a critical South African port to hit their lowest level

since 1993, despite a surge in demand from Europe as power producers sought to replace sanctions-hit Russian supplies. The South African Minister of Mining and Energy admitted that the country's miners were held back by railway problems and were losing out on more than $8.5 billion of bulk mineral sales.

Anglo American has withdrawn from the coal business in South Africa but says that railway problems had also slashed sales at its Kumba Iron Ore operation by a third during the last three months of 2022. The company said that it was not reconsidering investments in South Africa despite the power supply and rail problems.

Meanwhile, South Africa's finance minister has exempted Eskom from disclosing irregular spending in its audited annual financial statements for three years in order to shore up the broken power monopoly's international credit rating. The Finance Minister's Office explained that the exemption was made because of the risk of a negative outlook from credit rating agencies (if the information were disclosed). Auditors have hedged their views of Eskom's finances for years over failures to properly report irregular spending under public finance legislation, and the spread of corruption and rot at the indebted state-owned utility.

Middle East

War and sanctions have buoyed hydrocarbons, meaning oil and gas exporters are awash with cash. During previous booms these countries would recycle proceeds in Western capital markets. Underpinning this was an unspoken agreement; The U.S. would offer military aid and buy oil from Saudi Arabia and friends, in exchange for which they would plug the U.S.'s gaping current-account deficit with petrodollars. That has now changed. The U.S. today is an oil exporter. Gulf states, lured by Asia and eager to mend ties with Israel and, lately, Iran, no longer feel compelled to please Washington.

Crude prices surged after Saudi Arabia and its allies in the Opec+ group announced deepening oil production cuts of more than one million barrels per day at the beginning of April. The latest move is likely to put the already strained U.S.-Saudi relationship on an even more rocky trajectory.

Saudi Arabia will implement a "voluntary cut" of 500,000 b/d, or just under 5% of its output, in coordination with some Opec and non-Opec countries. The kingdom is attempting to boost prices amid fears of weaker global demand. Total cuts since last year amount to 4 million barrels per day, equivalent to 4% of global output.

The new Saudi-led initiative is unusual as it was announced outside a formal Opec+ meeting, suggesting an element of urgency by the members taking part in the cuts. The cuts follow a sharp fall in oil prices in March after the collapse of the Silicon Valley Bank in the U.S. and the forced takeover of Credit Suisse by UBS, which sparked fears on contagion in global financial markets and a significant drop-off in demand for crude.

The new voluntary cuts will begin in May and last until the end of 2023, the Saudi statement said. Iraq, UAE,

Kuwait, Kazakhstan, Algeria, and Oman will all reduce production. Russia said it will extend its existing 500,000 b/d production cut until year-end as well.

These crude exporters feel freer to use their mountains of cash however they wish. The EIU estimates that in 2022-23 the current-account surplus of the Gulf's petrostates will total three-quarters of a trillion dollars. Yet, outside central banks, which no longer collect much of the bounty, the region's treasure troves are kept opaque. Investigations suggest that less of the surplus money is returning to the West for investments. Instead, a growing share is being used to advance political aims at home and to gain influence abroad.

The region is experiencing a frenzy of activity as global investors show interest in the latest fast-flowing pipeline of initial public offerings (IPOs) in the Middle East.

In 2022, there was a record 51 IPOs across the Middle East and North Africa. They raised $22 billion, a 179% increase over 2021 according to data from Ernst & Young, the advisory firm. This year's market remains healthy as the region continues to attract investors' attention, compared to subdued activity in the rest of the world.

Financial regulatory reform, a privatization push amid relative political stability and rising oil and gas prices (since their Covid-19 pandemic lows) are driving both the IPO frenzy and private deals. A constant state of turmoil that previously defined the region has calmed down and oil prices are above break even (for governments).

Saudi Arabia is revamping its oil-reliant economy under the stewardship of crown prince Mohammed bin Salman. The United Arab Emirates have attracted financial groups to its commercial center in Dubai and launched a dizzying number of IPO listings in the oil-rich capital of Abu Dhabi. Meanwhile, Qatar, buzzing from its successful hosting of soccer's World Cup, is doubling gas exports.

Private capital fund managers deployed $19.8 billion in 191 Middle East deals last year, the only place to post a year-on-year increase in investment value in 2022, according to the Global Private Capital Association. In 2018, $600 million was invested.

The combination of regulatory reform and high oil prices has been most keenly felt in the Saudi stock market, with the standout deal being the 2019 $29 billion listing of oil supermajor Saudi Aramco. This kickstarted a surge of IPOs, with 2022 marking a record year. According to the data, over the past five years, market capitalization has surged about 475%. The Saudi market regulator reported that there are now 269 listed companies compared with 188 at the end of 2017, with another 80 companies preparing to float.

In Abu Dhabi, the national oil company has floated a series of assets, fostering a similar surge. Fast food operator Americana, owned by the Saudi sovereign Public Investment Fund and Dubai businessman Mohamed Alabbar, listed on both the Abu Dhabi and Riyadh stock exchanges in December amid surging demand.

Dubai's successful handling of the pandemic has lured global financial executives who took advantage of its open economy. Many have put down roots, persuading their firms to follow. Hedge Funds and asset managers have set up in the city's financial district, which is now in talks to license another 50 hedge funds as managers eye the tax-free incentives to locate there.

The Gulf states benefit from low production costs, spare capacity, and convenient geography. One estimate is that these countries pocketed $600 billion in taxes from hydrocarbon exports in 2022. However, not all of them are able to truly benefit. Governments in Bahrain and Iraq are so bloated that, even as higher revenues flow in, they barely break even. Most of the bounty is instead being accrued by the biggest four members of the Gulf Cooperation Council (GCC); Kuwait, Qatar, the UAE and Saudi Arabia. Estimates suggest that their combined current-account surplus in 2022 was $350 billion. Oil prices have fallen since last year, when Brent crude, the global benchmark, averaged $100 per barrel.

Yet, assuming crude remains near $85- a conservative bet- the four giants are projected to still pocket an additional $300 billion surplus in 2023. That makes a cumulative $650 billion over the two years.

In the past, the majority of this would have gone into central banks' foreign-exchange reserves. Most members of the GCC peg their currencies to the dollar, so they must set aside or invest hard currency during booms. This time however, central bank reserves seem hardly growing. Their interventions on foreign currency markets have been rare, confirming that the usual guardians of state riches are not getting the surplus.

Instead, the elusive billions are being used to pay back external debt, lent to friends in need and to acquire foreign assets. In 2022 the central bank of Egypt, a big food importer squeezed by high grain prices, received $13 billion in deposits from Qatar, Saudi Arabia, and the UAE. In recent years, Saudi

Arabia has also allowed Pakistan to defer payment for billions of dollars in oil purchases. This money is more conditional than in the past. Eager to see at least some of its cash come back, Saudi Arabia recently demanded Egypt and Pakistan implement economic reforms before giving them more help. Some of the Gulf support also comes in exchange for stakes in state-owned jewels these embattled countries are putting up for sale.

Turkey is a real novelty in this regard. When squeezed, Ankara used to turn to the International Monetary Fund (IMF), or European Banks, for emergency cash injections. Recently as surging inflation and earthquakes have pushed the country to the brink, it is Gulf states that have been to the rescue. The support takes various forms. In March Saudi Arabia pledged to deposit $5 billion in Turkey's central bank. Qatar and UAE have also set up $19 billion in currency swaps with the institution. All three countries have pledged to participate in Turkey's forthcoming auctions of government bonds.

Qatar is a longstanding ally of Turkey, Saudi Arabia, and the UAE, which until recently has a frosty relationship with Turkey, are now competing for influence. These countries all sense an opportunity to gain sway with President Erdogan who faces a tough election in May.

Asia

Ports across Asia will need significant investment to match the capacity of Chinese harbors. This means that western businesses will likely struggle to loosen ties with the world's largest exporter: China.

U.S. and European companies have signaled their intent to shift some of their manufacturing from China to India and countries in south-east Asia, amid rising geopolitical tensions between the U.S. and China. However, leaders in the global shipping industry caution that other countries in the region will have to invest in ports infrastructure as well as manufacturing capacity to handle the mega-container ships that drive world trade.

More than 80% of goods are transported by ships, according to the UN. However, data shows that other Asian manufacturing hubs have a shortage of harbors able to accommodate the largest ships that have become essential for transporting goods from east to west.

While China has 76 port terminals able to support large ships carrying more than 14,000 20-foot containers, south and south-east Asian countries have just 31 such terminals between them. Large vessels make up about two-thirds of the shipping capacity for services between Asia and Europe. Ports in other Asian emerging markets would struggle to process China's container volumes without significant investment.

Shipping groups have also acknowledged the industry faces challenges helping companies shift supply chains away from China. While customers are expecting to import more from India, that country needs to do a lot more in terms of investing in ports capacity to take advantage of the potential opportunities on the horizon. This will take years. One projection is that it could take five or ten years for India and South-east Asia to build terminals for large ships and begin to play a larger, different role in world trade.

A significant increase in exports from elsewhere in Asia would also require shipping patterns to be redrawn. China's largest port, Shanghai, runs 51 weekly services to North America – more than twice as many as any south of south-east Asia best connected port to North America, runs 19 services each week. Wester-based multinationals are apparently still planning to reduce their reliance on China.

According to the latest European Chamber of Commerce survey at the height of China's Covid lockdowns in 2022, almost a quarter of respondents were considering shifting current or planned investments in China to elsewhere.

A security consultancy helping a large company withdraw from China, with several people and production lines says it will happen over the next three years. The business is planning to shift manufacturing to Latin America as well as the Philippines.

Widespread sanctions on Russia have only deepened anxieties about a similar response if China were to invade Taiwan. Moscow's full-scale invasion of Ukraine has taught businesses a key lesson: how to protect themselves as the relationship between China and the west is decoupling. A long-term worst-case scenario is a company losing its supply chain with China.

Corporate America is increasingly citing deteriorating Sino-U.S. relations in the risk sections of their annual filing with the Securities and Exchange Commission (SEC). There is no surprise that corporate America has reached a new high this year with general mentions of geopolitical uncertainty in their filings with the SEC.

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