Major Country Risk Developments
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Overview

The world braces for the incoming Trump administration. Exporters to the U.S. expect their goods to face higher tariffs, payable by U.S. importers upon arrival of shipments at U.S. ports. While this will be a boom in revenue to the U.S. treasury, importers will undoubtedly pass on the added costs to U.S. consumers. From all appearances, the implementation of higher tariffs will not differ between friendly or unfriendly nations.

Some countries will seek to counter the new tariffs by retaliating with their own tariffs on U.S. goods as happened previously. One school of thought is that the U.S. would warn allies who retaliated with their own tariffs and who are also dependent on the U.S. for their defense, that such defense guarantees would then be reconsidered.

In recent days, some reports have suggested that an ongoing debate within the incoming Trump team could result in tariffs confined to critical imports. The report that tariffs might be scaled back had sparked a "relief rally" in the euro against the dollar, with hopes that European car manufacturers could be spared levies and that the tariffs might be less inflationary than first expected.

The new administration wants to roll back China's growing footprint in Latin America. This includes a desire for the U.S. to reassume control of the Panama Canal.

In South America, China is the continent's top trading partner, with five of the leading regional economies most indebted to China. Four of the five have received the most Chinese foreign direct investments.

Meanwhile, the newly opened Chinese-owned and operated mega-port of Chancay, in Peru, is drawing lots of attention. The incoming Trump administration proposed 60% tariffs on all goods that pass through the new port heading to the U.S.

When the pressure comes bearing down, no one can expect all Latin America to respond in the same way. South America's major economies will resist picking sides. But if pushed, it is hard to see these countries distancing much from Beijing. If pressure backfires, and South America swings east, there will be consequences for security dynamics in the Pacific, critical mineral and rare earth element supply chains, and more.

The risk of pressure backfiring is exemplified by Colombia, one of the top recipients of U.S. assistance worldwide. The country's incumbent President Gustavo Petro is expected to usher Colombia into China's Belt and Road Initiative in 2025 and possibly join the BRICS bank. With two years left in his term in office and few internal constraints, Petro could turn even more sharply towards China in response to heavy handed pressure, potentially costing the U.S. its closest regional ally.

Instead, we can expect the region to divide less along ideological lines than geographic ones - into a northern half aligned to Washington and a southern half to drifting closer to Beijing. Many believe the U.S. will need a positive agenda to compete effectively with China, like expanded access to markets in the U.S. and more abundant development financing to combat the growing China influence in the region.

USA

Strong jobs and services data recently released have strengthened expectations that the Federal Reserve ("the Fed") will likely slow future cuts to interest rates, than previously expected. In addition, U.S. inflation rose to 2.9% in December 2024 bolstering the case for the Fed to slow its pace of interest rate cuts this year. The Fed officials have already signaled that they plan to take "careful approach" to rate cuts amid growing concerns that inflation may not come down to the central bank's 2% target.

The 10-year U.S. government bond yield – a global benchmark for fixed income assets rose to 4.79%, its highest since April 2023. It has since slipped to 4.71%. The moves followed a slew of data that indicated the world's largest economy remained in good health, casting further doubt on the case for the Fed's rate cuts. The expectation is that the incoming Trump administration's pro-growth, potentially inflationary policies will limit the Fed's scope to consider future cuts. The consensus is that the Fed will not lower rates at its next policy meeting in January 2025. This will likely boost demand for the dollar relative to other major currencies.

President Trump has laid out aggressive plans to impose tariffs on a vast swath of imports, implement a huge crackdown on undocumented immigrants and enact sweeping tax cuts. Such plans could boost inflation further.

U.S. traditional allies are among the countries that feel most threatened by a change in the way that the U.S. exercises its power. Democracies such as the UK, Japan, Canada, South Korea, Germany and the entire EU have

become accustomed to a world which American markets are open-and the U.S. provides a security guarantee against threatening authoritarian powers.

President Trump plans to impose tariffs on close U.S. allies and has called into question U.S. security guarantees-including NATO's Article 5, its mutual defense clause. The question of whether or not and in what manner to respond to the new tariffs when they are implemented is exercising diplomatic minds across the western world. Finding the correct answer is even more difficult because the new administration's true intentions remain unclear. Some believe the tariffs threats are a negotiating tactic and that a reasonable deal can be reached, well before an all-out trade war breaks out. Still, others warn that these threats must be taken seriously.

China

Corporate profits in China for companies with more than $2.7mn in revenue declined by an average of 4.7% year to year between January 2023 and November 2024, according to the National Bureau of Statistics. This is greater than the 4% decline seen during the whole of 2022 when the country was under pandemic lockdowns. In addition, 25% of such companies made outright losses in the period, compared with 16% in the full year of 2019 before the pandemic.

China will continue to be a powerful and influential global player. However, the country confronts a growing set of complex challenges that will complicate its development trajectory for some time. Following a decade of slowing growth, China's economy now contends with mounting pressures from an overly indebted real estate market, surging provincial government debt, constrained local government finances, waning productivity, and a rapidly aging population, all of which will require the country's leadership to grapple with difficult tradeoffs.

Abroad, China faces regional military tensions and increasing scrutiny and pushback from advanced economies. Indeed, some of the foundational conditions that drove China's remarkable growth over the past two decades are unraveling. While these new difficulties are emerging, demanding nimble policymaking, President

Xi Jinping's consolidation of power has stifled political debate and sidelined technocrats, yielding a policymaking process that is brittle, reactive, and prone to missteps. Chinese young people now lament the narrowing space they must achieve their goals, a trend that will not change unless China's leadership and policies change. That eventuality appears distant.

Chinese exports soared in 2024, and its trade surplus ballooned as a result. Despite the China's leader assuring incoming U.S. president Trump that both countries would "benefit from cooperation and suffer from confrontation," the bumper export figures are expected to inflame bilateral tensions. Aggressive 60% U.S. tariffs promised by the incoming administration on Chinese goods, if imposed, will likely trigger aggressive counter measures from China.

Meanwhile, China's best-selling car manufacturer, BYD, sold a record number of electric vehicles and hybrids globally in 2024, even as fierce competition took hold in its home market. Tesla's biggest rival sold 4.3 million EVs and hybrids in 2024, far more than the target of 3.6 million it set earlier. China is expected to sell more EVs than vehicles with internal combustion engines for the first time in 2025, because of hundreds of billions of dollars in government subsidies over the past decade.

There have been growing expectations for Chinese interest rate cuts, given that the most recent data continue to show weak consumer demand; and the stimulus measures announced so far - seem to have failed to boost growth expectations for 2025.

China's consumer prices barely rose in December, underling deflationary pressures that have pushed bond yields to record lows in the world's second-largest economy. The weak inflation reading came despite months of effort by policymakers to stimulate demand. China's leaders announced in December that the country would officially adopt a "moderately loose" monetary policy for the first time in 14 years and work to "vigorously boost consumption."

Estimates are that China will need to spend $1.4 trillion on stimulus directly targeting households, rather than policymakers' preferred tools of infrastructure investment and local government financing. Many observers believe Chinese authorities are holding off on announcing more spending plans while it awaits more clarity on potential U.S. tariffs.

In December 2024, when a rally in China's bond market gathered momentum, indications suggested that investors remain skeptical that recent policy shifts will lead to a sustained recovery in China's growth. One prediction is that the 10-year Chinese government bond yield will slip further to 1.5% by the end of 2025. At this stage, this is hopeful. Given that China has now been flirting with deflation since 2023 and the producer price index is already deeply negative, it means that yields are still coming down. Barring an economic miracle, yields will likely fall further.

One speculation is that Chinese authorities could offset U.S. tariffs by allowing a steeper depreciation of the renminbi. The currency's fixed rate of Rmb7.166:U.S.$1 recently witnessed its sharpest one-day weakening since April 2022. The renminbi has weakened past Rmb7.33:U.S.$1 in the opening trading days of 2025, reaching its lowest level since September 2023 in a

challenge to Chinese authorities, which have vowed to maintain the currency at a stable level. The selling pressure partly reflects fears that the steep tariffs on Chinese products proposed by the incoming U.S. administration would force the Chinese central bank to weaken the renminbi to offset their impact of Chinese exports, which have helped the country maintain economic growth amid weak domestic consumer demand.

Investors believe the central bank will tolerate a gradual weaking of the currency. Global banks anticipate the renminbi will hit Rmb7.5:US$1 or beyond by the end of 2025, a level last seen in 2007, with serious implications for global trade.

If the currency hits that level, China has $3.2 trillion in official reserves and an estimated $1 trillion more in unofficial support from state banks and exporters that it could deploy to protect the renminbi.

China could use the renminbi as a weapon to weaken the exchange rate to gain a trading advantage in a high tariff environment. However, this strategy could be undermined if tariffs revive inflation in the U.S and lead to interest rate rises, threatening an over-depreciation of the Chinese currency.

Europe

Germany's economy shrank for a second straight year in 2024, underlining the severity of the downturn facing Europe's largest economy (and until recently its manufacturing powerhouse). The German Federal Statistics Office reported the economy contracted by 0.2% last year, after shrinking by 0.3% in 2023. Germany is experiencing the longest stagnation of its postwar history.

The Statistics Office blamed "cyclical and structural pressures" for the poor performance, pointing to "increasing competition for the German export industry, high energy costs, an interest rate level that remains high and an uncertain economic outlook." The economy lost momentum toward year-end, suggesting this could have been driven by political uncertainty related to Washington's tariffs plans.

The Bundesbank has confirmed that stagnation is set to continue this year, predicting growth of just 0.1% - but warned that a trade war with the U.S. would trigger another year of economic contraction.

Germany is struggling with a crisis in its automotive industry fueled by Chinese competition and an expensive transition to electric vehicles, alongside high energy costs and tepid consumer demand. Output in manufacturing contracted by 3%, while corporate investment fell 2.8%. Germany has in effect seen no meaningful economic growth since the start of the pandemic, with industrial production hovering more than 10% below its peak while unemployment has started to rise again.

The confirmation of the country's most protracted economic crisis in decades comes just weeks ahead of a crucial snap election. Campaigning has been dominated by the specter of deindustrialization, crumbling infrastructure and whether the country should abandon a debt brake that constrains public spending.

Job losses at European car parts suppliers more than doubled in 2024 as the slowdown in the continent's economy and its automotive industry in particular – has hit the fortunes of its manufacturing supply chain.

Analysis from the European Association of Automotive Suppliers showed that more than 30,000 jobs had been cut across the industry in 2024, compared with 15,000 in 2023. Job creation has also slowed and there have been more than 58,000 net job losses across the industry in Europe since 2020.

Businesses ranging from French tire manufacturer Michelin to German manufacturer Bosch announced thousands of job cuts in 2024 as sales of new vehicles by European producers have steadily fallen, leaving suppliers with excess capacity and little prospect of a rebound in sales.

While larger companies have cut jobs and closed plants, some smaller businesses have been forced into bankruptcy or filed for insolvency. Loss of growth for European manufacturers means loss of growth for equipment makers.

Car part suppliers directly employed 1.7 million workers in the EU prior to the Covid pandemic. The decline in demand followed, then the war in Ukraine and subsequent inflation. These have dented the competitiveness of European industries just as Chinese rivals pushed to increase market share. One estimate is that the little growth that can be expected on the European market will be or has been taken by the growth of imports, particularly from China.

While European suppliers were trying to work with local auto groups in China, the big concern was that Chinese brands would eventually assemble vehicles in Europe but with parts from China and other countries.

The relatively high costs of electric vehicles (EVs) and reduction of subsidies in countries such as Germany have capped their widespread uptake, meaning companies investing in technologies have not seen the demand they expected.

Job losses linked to combustion engines since 2020 far outnumbered those created by the shift to EVs. In a sign of the slowdown in the EV market, 4,680 jobs related to suppliers for battery-run cars were lost in 2024, more than the 4,450 created.

European regulation is also a challenge for parts manufacturers supplying vehicles with conventional engines. Beginning in 2025, the European Commission will tighten rules on carbon emissions for carmakers, while it plans to bring sales of new combustion engine cars to an end by 2035.

Industry figures have called for a rethink on incoming penalties. Despite Germany slashing EV subsidies in 2023, the German Chancellor recently noted that the EU needed 'incentives" for electric cars and that levies on car emissions should not affect the financial liquidity of companies investing in the electric vehicle transition.

While EV sales are expected to increase, Chinese manufacturers are beating their European counterparts on price, styling and customer satisfaction. Parts suppliers

are bracing for a sustained period of lower growth, with some announcing long-term reduction plans.

Forvia, a maker of dashboards, door panels and exhaust systems announced it will cut 10,000 jobs from its European workforce of more than 75,000 over the next three years. Michelin said it will close two French factories making tires for trucks and vans. The measure, affecting 13,00 employees, was due to "structural overcapacity" because of low-cost competition in Asia.

For companies making investments, many are looking beyond Europe. Some are setting up shop in the U.S. to serve Tesla customers as well as opening factories in China. No one is anticipating growth in the sector in Europe over the next five years.

Mexico

Maintaining positive ties with the U.S. will be crucial to Mexico's economic outlook. President Trump has promised to impose a minimum 25% tariff on Mexican exports. This could go up to 100% if border issues are left unaddressed. The U.S. is also accusing Mexico of permitting illegal migration and drug trafficking across its borders. The Mexican government recently reported that it has broken up two modest migrant caravans and recently announced a record seizure of fentanyl in Sinaloa. The imposition of significant tariffs or introduction of meaningful non-tariff barriers would appear to violate the U.S. obligations under the U.S.-Mexico Canada Agreement (USMCA). However, there is an 'out' via Article 32.2 of the USMCA, which reads: 'Nothing in this Agreement shall be construed to preclude a Party from applying measures that it considers necessary for the fulfillment of its obligations with respect to the maintenance or restoration of its own essential security interests.'

Given their interests in maintaining the existing agreement, both Mexico and Canada would likely respond in kind through a USMCA arbitration panel rather than immediate imposition of tit-for-tat tariffs. This panel would produce its findings in six months or less, and if there were to be an adverse judgment, the U.S. would be required to take corrective action within 45 days before Mexico or Canada would be able to introduce retaliatory measures which must be similar in scope.

Geographical proximity has meant that the Mexican economy has always been sensitive to developments to its larger neighbor to the north. Approximately 80% of Mexico's exports now go to the U.S. representing 30% of Mexico's GDP. The U.S. is also Mexico's largest source of foreign direct investment, accounting for 40-50% of total inflows. In contrast to the rest of Latin America, Mexican exports to the U.S. are much more diversified.

Mexico is an important source of precision instruments and electronic goods for the U.S. Ties are strongest in the auto industry, a sector that accounts for 5% of Mexico's GDP but 20% of its total exports. Around 15% of new cars sold in the U.S. are assembled in Mexico. Mexico accounts for 40% of U.S. imports of auto parts. Estimates from the Dallas Federal Reserve, that seek to account for back and forth trade, find that 40% of the value added in Mexican exports to the U.S. comes from the U.S. itself. The new U.S. administration proposed 200% tariffs on Mexican- made cars, which it fears China could exploit as a backdoor into the U.S. market.

Commodities account for a larger share of U.S. exports to Mexico, reflecting Mexico's historic reliance on imports of refined products and natural gas (a reliance the current Mexican government is hoping to reduce).

Maintaining a solid working relationship with the U.S. is crucial for the nearshoring phenomenon – which underpins a reasonably positive longer-term forecast for Mexico's real GDP growth (an average of 2.5% from 2025-2030 compared with 2.3% from 2010 to 2019). Nearshoring is a capital intensive process, given the need to build new factories and construct infrastructure to support the production and export of the output from these factories. As the excitement about the potential upside to this process grew, it contributed to a notable rally in the domestic equity market led by financials and industrials.

This move has now significantly reversed course, as recent political developments both north and south of the border have led investors to question whether the investment boom will continue.

Absent major productivity breakthroughs and the rapid adoption of new technologies, it won't be viable for much of the manufacturing activity that currently takes place in Mexico to return to the U.S. without American consumers paying much higher prices for those goods. Although Mexico's lower public debt-to-GDP ratio suggests concerns over fiscal challenges are more muted than in other major economies in the region (e.g. Brazil, Colombia), increased state intervention in the economy will have to be moderated due to souring market sentiment. There has been a foreign exchange weakness that is at least partially driven by worries about fiscal sustainability.

The consensus is that Mexican business confidence will deteriorate in 2025 not only because of new U.S. administration, but with the implementation of several recent constitutional reforms, as well as the Mexico President's Sheinbaum administration's austerity plans.

The government has launched a plan to shrink its more than $105 billion annual trade deficit with China and attract investment. This is viewed as an olive branch to the incoming Trump administration. The plan comes as Mexico tries to push back against claims that it is allowing Chinese goods to pass through the country into the U.S. President Sheinbaum must try to ease trade tensions with the U.S. Both Mexico and Canada have also been moving to align their trade rules with the U.S. to limit Chinese imports and investment as they try to preserve the three-nation USMCA agreement. Members of the Trump team have expressed concern about China's growing role in Mexico. In recent weeks, the Mexican government has imposed new tariffs on imports of clothing and other textiles from China.

Brazil

A panic in Brazil's financial markets has laid bare - plummeting investor confidence in the fiscal policy of President Lula da Silva. The left-leaning administration is under intense pressure to fortify the public accounts of Latin America's largest economy.

The Brazilian currency, the real, weakened by 2% during just one week into December 2024, touching a record

low of BRL 6.21:U.S.$1 despite a barrage of foreign exchange interventions by the central bank. The Banco Central do Brazil (BCB) sold $6 billion in back-to-back operations over a three-day period in mid-December, as policymakers sought to prop up the embattled currency. The real's recent decline has taken its fall against the dollar to 21%, making it the worst performer in 2024 in the emerging market currency index.

Those aggressive dollar sales staved off heavier selling of the real, which regained some ground to trade at BRL 6.16:U.S.$1. However, investors insist that stronger actions are needed to ease anxieties about the country's public finances. Many believe Brazil's currency rout will continue to escalate unless the central bank steps up with emergency measures and the Lula da Silva government delivers fiscal reforms. The sell-off of the real is compounding a delicate moment for the Lula government, which is attempting to push through cost savings after its tax-and-spend policies provoked mounting resistance in the business community. The central bank burnt through $17 billion in spot market auctions over a week to support the currency.

Markets remain concerned and pessimistic regarding the country's fiscal accounts and especially the government's response to it. The market's way of calling attention to these concerns is through the exchange rate. Meanwhile, Brazil's benchmark Bovespa share index declined 27% in U.S. dollar terms during 2024, compared with a 7% rise for the MSCI's broad emerging market gauge.

While emerging market currencies have broadly struggled since November's U.S. presidential election, the

Brazilian currency weakening stems from the worries about increased government spending and rising debt levels under the sitting Lula administration. Stimulus measures have been a boom to growth but have also contributed to higher levels of inflation and prompted questions about Brazil's fiscal sustainability.

The central bank has attempted to ease investors' nerves and push back against the jolt of inflationary pressure by boosting borrowing costs. The central bank lifted its main interest rates by a greater than expected 1 percentage point in mid-December, taking the Selic benchmark rate to 12.25%. Policymakers have signaled further rate increases of a similar magnitude at the bank's next two rate-setting meetings in 2025. Higher interest rates may help protect the real by enticing foreign investors, but they will also cool demand across Brazil's $2.2 trillion economy.

Market observers predict that the authorities will be forced to deliver economic pain to slow down the economy this year and then try to cut rates in 2026. There is a sense of urgency which demands that the currency be protected now. Hence, the short-term solution is to aggressively hike interest rates. Any durable solution will require a credible commitment to reducing the country's fiscal deficit. Some people point out that Brazil's debt level is high but not dangerous, adding that the country's total borrowings are lower than most G7 countries relative to GDP. Nonetheless, Brazil pays very high real rates to borrow, while G7 countries don't. Consequently, the sustainable level of debt for Brazil is always going to be a good bit lower.

Brazil's nominal fiscal deficit is close to 10% of GDP, which risks pushing the public debt to unsustainable levels. A promise by the Lula government to find $11.3 billion in spending cuts to meet its own budget targets - failed to calm the nerves of traders, who saw the parallel announcement of tax breaks for lower earners as undermining the commitment to fiscal discipline.

The government's fiscal adjustment plans remain uncertain as many of the proposals require approval by Congress. President Lula was directly involved in negotiations with lawmakers but was out of Brasilia in December undergoing emergency surgery to remove a brain bleed. The 79 year-old, who previously ruled from 2003-11, returned to power in 2023 on a pledge to boost welfare and public works programs. The fall in investor confidence presents the greatest challenge to Lula. The turmoil reflects worries that that not enough is being done to tackle the chronic budget deficit -even as the finance ministry rushed to obtain congressional approval for $11.3 billion in spending cuts in December.

Lula supporters counter that the market turbulence belies an economy in good health, pointing to a reduction in poverty and lower inflation than when he took office. Brazil's nominal deficit-which includes interest payments-has more than doubled to above 9.5% since Lula took office, pushing up public borrowing. Government debt to GDP has risen to 79%-and is projected to breach 80% by the end of Lula's current term. Given more than 90% of Brazil's budget is allocated to legally mandated items, such as pensions and social benefits, finding major cost savings is very difficult for any government.

The central bank's next policy meeting is scheduled for late January 2025. In the interim, policymakers will likely try to jawbone the currency, by using rhetoric to keep the real from sinking further and keep fighting using

market mechanisms. The central bank could also raise rates prior to the next meeting to shock markets to help stabilize the currency. There's a new central bank governor effective January 1, 2025. He was chosen by Lula, raising questions about central bank independence at a sensitive moment for the institution and the country.

Argentina

In early January, Argentina's government paid $4.3 billion to holders of its sovereign bonds, its largest repayment since a 2020 debt restructuring. This was a crucial step in President Milei's attempt to restore confidence in a country regarded as a serial defaulter. The payment was a landmark for the country as many investors doubted that Argentina would escape another debt restructuring this year given the size of debts coming due in 2025.

Milei's free-market reform drive and growing expectations that he will repay debts have powered a big rally in Argentina's sovereign bond prices in recent months.
The Argentine peso strengthened more than any other currency in 2024. The peso strengthened 44.2% in the first 11 months of the year against a basket of trading partners' currencies, adjusting for Argentina's 177% annual inflation, according to data from the Bank of International Settlements. That far outpaces the 21.2% gain for the Turkish lira in second place.

The gains for the government-set exchange rate have been replicated on several legal and illegal parallel markets where Argentines buy dollars because access to the official rate is restricted. The trend is popular with Argentines, who have seen average salaries almost double in dollar terms to $990 from December 2023, at the parallel rate, after seven years of near constant depreciation. But it has come at a cost. The central bank has struggled to rebuild its virtually empty hard currency reserves as it spends dollars to keep the peso strong.

The one-year-old government of President Javier Milei has begun opening Argentina's protectionist economy. Slashing tariffs in a bid to beat down high prices on all types of goods. Argentines are ordering from Amazon for the first time and supermarkets are beginning to stock shelves with imported goods, as the libertarian president dismantles a web of duties and regulations that have made imported products mostly unaffordable.

Argentine consumers complain that domestically produced electronics, clothes and other goods, whose manufacturers are shielded from competition and face a big tax burden, are also overpriced. "Everything is expensive and the difference in quality is noticeable" is a common refrain among Argentine shoppers. People state that while they are friends of the Argentine industry, their support is not at any cost.

Aiming to lower consumer prices and speed the decline of Argentina's triple-digit annual inflation, the government has slashed tariffs on dozens of everyday products. They have also stripped away red tape at Argentina's customs agency, including a rule that required representatives of local manufacturers to give approval for some imports from their foreign rivals.

Milei's administration has tripled the annual amount that Argentines are allowed to order from abroad for personal use to $3,000, exempting the first $400 from tariffs, Amazon began offering free shipping of some products from its U.S. stores to Argentina in November 2024. According to the president in his address to a recent business forum: "We are lowering tariffs that underpin the disastrous scheme to replace imports with domestic production. It has punished the entire society with goods and services of worse quality at higher prices, for the benefit of a privileged few."

On December 22, 2024, the government stopped charging a blanket tax of 7.5% on all imported goods and a 30% tax on Argentines' overseas credit card purchases. These changes put Argentina on the opposite course to much of the rest of the world. In recent years, the U.S. and European countries have erected new trade barriers to protect domestic industries from cheap imports from China and elsewhere.

Argentine manufacturing businesses warn that a surge in imports could devastate a sector that employs 20% of workers and has already been hit hard by the country's economic crisis. Manufacturing activity declined by 12.7% for the first nine months of 2024 compared with the same period in 2023. Imports are up, demand is down, and our costs have risen declares the director of a leading local textile group, who has already cut 15% of its 280 staff. Companies complain that Milei's government is yet to resolve the high taxes and rigid labor market that have made Argentina one of the most expensive countries in Latin America to do business.

Milei's reforms are the latest swing of the pendulum for Argentina's economy. Successive governments from the left-leaning Peronist movement, which is allied with labor unions, have implemented tariffs and subsidies to promote domestic industry, while right-wing governments in the 1970's and 1990's scrapped restrictions, causing waves of industrial closures. Milei has maintained that he wants to unleash market forces to reorient Argentina's economy towards sectors where it has competitive advantage: agriculture, mining, energy and tech, which together employ just 12% of the workforce.

The economy became more closed off than it had been in decades under Milei's Peronist predecessor Alberto Fernandez, who sought to protect scarce hard currency reserves by limiting companies' ability to pay suppliers. The restrictions severely disrupted manufacturers and retailers, leading to widespread shortages of goods. This created an underground network, based on bribing government officials to skip the queue.

Milei's government resolve these issues in early 2024, lifting lengthy waiting period for payments and creating a dollar bond to help companies pay off debts they had built up to suppliers.

Some analysts warn that the rapid depreciation of the real in neighboring Brazil and a potential tariff spree in the U.S. could leave Argentina vulnerable to a sudden devaluation. Milei's program is working, but the peso's appreciation is the greatest risk going forward.

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Trade Credit & Political Risk

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