

Political risk report 2023

Summary

Overview

The global political and economic environment is likely to remain fragile in 2023 as a number of factors work in concert to compound the impact of various risks. Marsh's *Political Risk Report 2023* examines four areas where increasing political, performance, and credit risk threaten global trading, security, and investment environments:

Persistent political instability, especially when compounded by the impact of inflation, threatens the economic and investment environment and, in some cases, the social fabric of emerging markets. Various countries will soon hold, or have recently held, elections that could further fuel social instability and political polarization.

Economic retrenchment is a dominant trend as governments worldwide focus on their self-interests in national economic security, often at the expense of free trade, further fragmenting international alliances. In 2022, every region felt the impact of the slowing global economy, although some were better insulated than others. Decisions by key economic powers on issues from fertilizers to microchips to the energy transition will continue to have global repercussions.

Competition for strategic resources is intensifying as a result of the Russia-Ukraine conflict and the ever-increasing demand for raw materials used in modern technologies. While countries that hold these resources are seeing opportunities for growth, the competition between governments in many places contributes to geopolitical instability.

Supply chain diversification brings new risks, with companies seeking solutions to mitigate against soaring material prices, fluctuating exchange rates, increased shipping costs, and government intervention. While supply chain resilience trends — including reshoring and supply chain simplification — may disrupt many economies and businesses for years to come, they also present opportunities for nimble competitors.

In line with the four trends identified, Marsh's *Political Risk Report 2023* highlights a continuing increase in economic risk across most regions, driven principally by high inflation, which adds to long-simmering geopolitical tensions (see Figure 1). However, our analysis shows that some countries stand to benefit from a diversified supply chain and a pivot towards critical minerals.

The compounding effect of related global risks is what the World Economic Forum (WEF) [Global Risks Report 2023](#) calls "polycrises" that will test resiliency at the global, country, and business levels.

The WEF report, created in partnership with Marsh McLennan and others, warns that these polycrises have turned the focus of nations inward and that the emerging outlook for international cooperation is deteriorating. A better balance between national preparedness and global cooperation is needed to build collective resilience to the next global shock or shocks, whatever form they may take.

A particularly unusual and positive feature of the current elevated risk environment is the concurrent existence of at least four substantial and overriding global economic growth drivers.

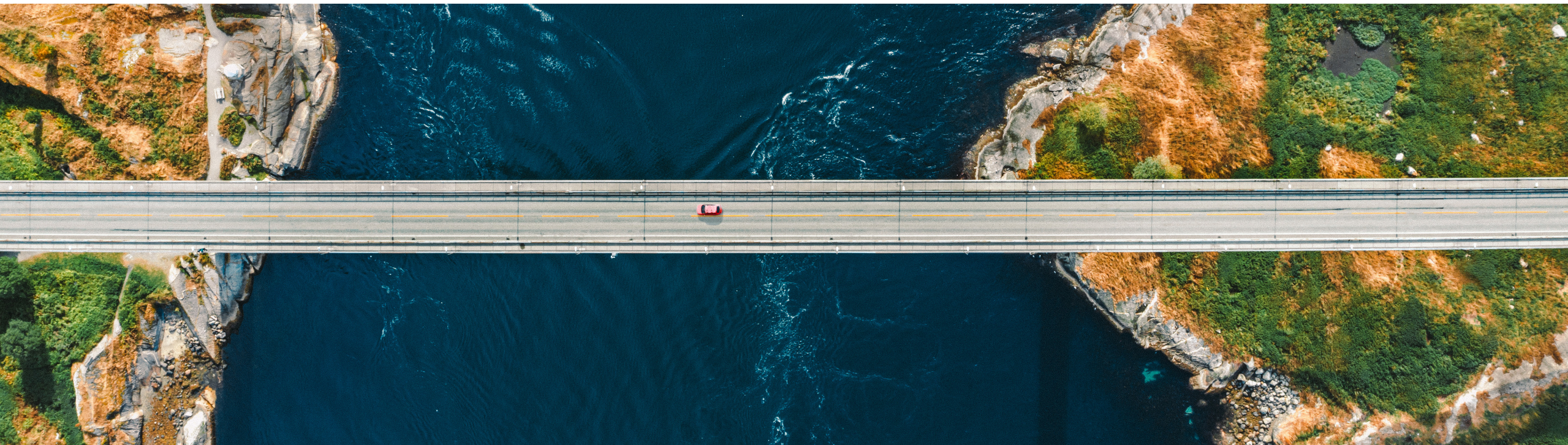
They include:

1. The backlog of core infrastructure investment.
2. The need to rapidly increase energy transition investments to meet the 2030 Paris Agreement climate and sustainability goals.
3. Energy and food security.
4. Defense investment.

Changing economic or political circumstances may impact these four growth drivers, but they are global imperatives that will affect almost every step of every supply chain for many years to come.

This presents public and private corporations, in every region of the world, with substantial investment and trade opportunities.

Combining today's complex, volatile risks with substantial growth opportunities provides an environment in which credit, performance, and political risk management and mitigation is critical, not only to protect capital, but also to enable growth of existing assets and new investments.



SEEING OPPORTUNITY AMID THE VOLATILITY

A key question for investors and our clients is whether this global friction, polarization, and retrenchment will further exacerbate persistent and emerging risks. Our analysis supports the view that four areas in particular will override this volatility and remain robust to sustain growth in the coming years.

- Globally, the lockdown backlog of infrastructure investment bodes well for future activity and expansion.
- The need to rapidly increase investment in the net-zero transition to reduce total emissions through 2030, in line with the goals of the Paris Agreement.
- Food and energy security will continue to attract opportunities to diversify supply chains and secure supplies.
- Government defense spending is rising substantially worldwide to support allies, counter threats, and accelerate the sector's modernization.

What's needed at a time of major economic headwinds and increased geopolitical instability is an informed view of the political and credit risk landscape, and how it impacts your business. Marsh advisors are available to support your business's efforts to build resilience, face operational challenges, and enable future opportunities.

To find out how we can help your business, email us at creditspecialties@marsh.com or contact your Marsh representative for a confidential discussion.



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