

# ATMOSPHERICS

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## GLOBAL SUBSIDIES



### Bottom Line Up Front:

- Subsidies manifest in diverse forms and can be initiated at different levels of government, such as federal, state, or local. The nature of a subsidy determines its potential to extend beyond the borders of a single country, thereby amplifying its impact on a global scale.
- The US and its allies/partners have for a long time operated within a boundary “norm” when creating subsidies for their respective markets, as not to over-incentivize companies to direct a disproportionate amount of investment into a single country.
- The timing of the US' Inflation Reduction Act and CHIPS and Science Act being signed into law in 2022 has introduced a delicate situation for US-EU relations, particularly amidst the ongoing Russia-Ukraine conflict. The extensive size and reach of these subsidies have the potential to negatively impact the broader EU economy.
- When considering the creation of subsidies of such magnitude that they can impact foreign economies, the question of how these subsidies will be funded becomes significantly more important. This is particularly crucial when examining the level of deficits and debt that a country may currently be grappling with.



# TECHNOLOGY



AI Generated Image

*"In the intricate chess game of the global economy, subsidies are not merely pawns. They extend their influence beyond fiscal measures, shaping international trade contours, driving technological advancement, and sketching the pathway of our shared environmental future."*

- ChatGPT 2023

The world of global economic and political dynamics is in the midst of an evolution, with subsidies – traditional tools of fiscal policy – emerging as the central protagonists. Powerhouse economies such as China (\$1.4 trillion), the United States (\$649 billion), Russia (\$551 billion), the European Union (\$289 billion), and India (\$209 billion) are utilizing these as strategic tools, shaping an intricate global chessboard of interests.

Sector-wise strategies for subsidies reveal stark differences. Fossil fuel subsidies, estimated at an astounding \$5.9 trillion or 6.8% of global GDP, continue to distort market equilibrium and pose environmental challenges. In contrast, the advent of green subsidies paints a hopeful picture of a sustainable future. However, they are not free from controversy. The wrangle over green energy subsidies among the US, the EU, and China encapsulates the broader tension between the desire for economic competitiveness and the responsibility towards the environment.

In the realm of the semiconductor industry – the lifeblood of the digital economy – the role of subsidies has become even more critical. Nations are using them to lure investments and strengthen domestic capacities, adding another layer of complexity to global trade dynamics. Forex markets, too, feel the impact of subsidies. For instance, the US's extensive subsidy programs, funded by running a large deficit, attract foreign capital, indirectly bolstering the dollar. However, this strategy has repercussions. The bloating US government debt could raise sustainability concerns, potentially undermining the dollar's status as the global reserve currency.

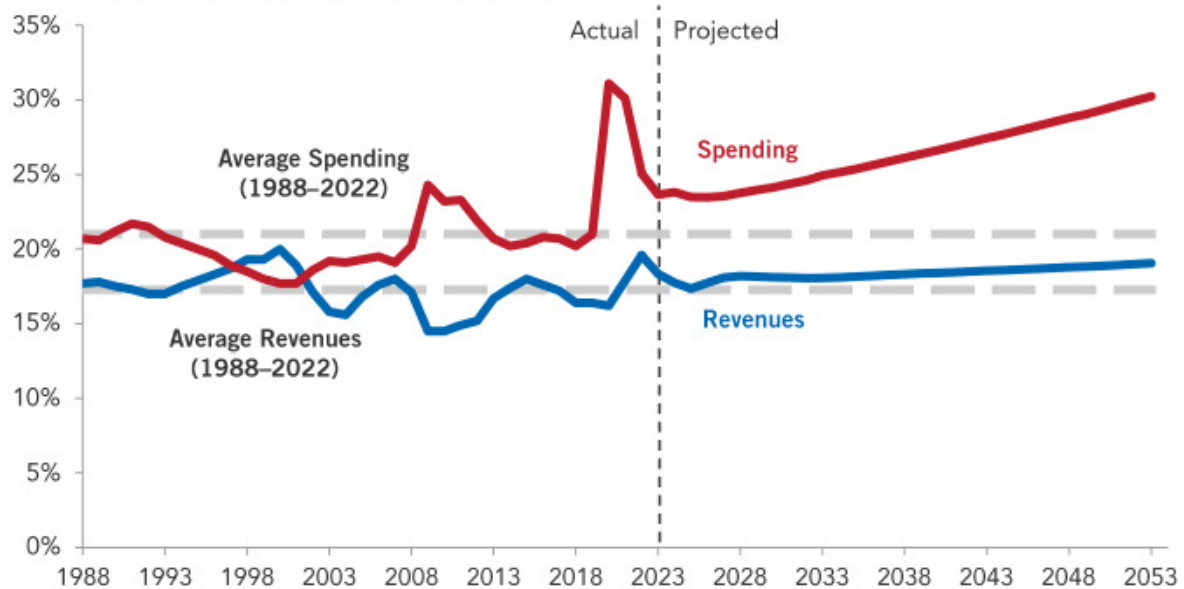
All these intertwined issues underscore an urgent call for a well-orchestrated global discourse. The EU's effort to balance environmental goals with economic interests in its trade policies with China typifies these complexities. Decisions made today, in boardrooms and policy circles, will not only redraw the global trade map but also shape our shared environmental and economic destiny.

# SENTIMENT



The growing debt is caused by a structural mismatch between spending and revenues

Federal Spending and Revenues (% of GDP)



SOURCES: Congressional Budget Office, *The Budget and Economic Budget Outlook: 2023 to 2033*, February 2023; and Office of Management and Budget, *Historical Tables, Budget of the United States Government: Fiscal Year 2024*, March 2023.

NOTE: Projected data have been adjusted to remove the effects of timing shifts. Certain payments that would ordinarily have been made on the first day of this fiscal year (October 1), but are instead made at the end of September and thus shifted into the previous fiscal year are treated as belonging to the subsequent fiscal year.

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US residents aggregated sentiment surrounding global subsidies is highlighted in the following six points:

**Impact on Domestic Industries:** Citizens may fear that global subsidies provided to other industries by other nations could unfairly compete against domestic businesses in international markets, making it harder for domestic firms to remain viable competitors.

**Trade Imbalances:** Global subsidies may create trade imbalances by flooding US markets with goods subsidized in other countries, potentially impacting US industries and leading to job loss.

**Trade Disputes:** Concerns may arise about trade disputes and conflicts between the US and other nations over perceived unfair subsidies, potentially leading to tensions and retaliatory measures being implemented against one or both sides.

**Loss of Jobs:** Citizens may worry that subsidised foreign goods will displace domestic ones and lead to job losses in certain industries or regions.

**Environmental Implications:** Global subsidies in certain industries such as fossil fuels may work against our environmental goals and compromise efforts to combat climate change.

**Transparency and Accountability:** Concerns may arise about the lack of transparency and accountability within some global subsidy programs, leading to possible misuse or diversion of funds.

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