

UpSideRisks

MONTHLY RISK REPORT

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UPSIDE RISKS

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SUMMARY

The potential impact of the use of artificial intelligence in the banking system is beginning to generate concern. Voices for and against the need to regulate this technology are shaping a new debate. On the other hand, international political tensions are impacting global supply chains, making them more complex and risky. The World Meteorological Organization warns that climate change is generating a more unstable water cycle, increasing the risk of flooding in South America in the near future. The Economic Commission for Latin America and the Caribbean (ECLAC) and the Pan American Health Organization (PAHO) have begun to warn about this process in our continent. These and other topics are discussed in our new Monthly Risk Report. We hope you find it of interest.

Artificial Intelligence

AI on the financial system

At the beginning of October, the Chairman of the US Securities and Exchange Commission (SEC), Gary Gensler, warned banking regulators of the need to manage the risks generated by artificial intelligence (AI) to avoid serious consequences on the financial system. According to his statements, the concentration of data managed by platforms that use AI will represent a growing risk to the stability of the financial system.

In the same vein, the Central Bank of England recently published a paper warning central banks about the risks related to AI. In addition to pointing out its potential effects on financial stability, the institution warned about the importance of supervising the correct functioning of algorithms in order to avoid bias and discrimination among their clients. Finally, it was pointed out that the confidence of savers in the correct administration of their personal data is essential for the stability of the financial system and that an incorrect operation of this technology could generate a systemic risk.

On the other hand, Věra Jourova, vice president of the European Commission for Financial Transparency, warns against "paranoia" and excessive restrictions on the regulation of generative artificial intelligence in the European Union. Jourová urges avoiding "dystopian" concerns, advocating sound analysis of real risks rather than unfounded fears. She asserted that legislation must be dynamic, adapting to emerging risks without strangling innovation. He acknowledged that excessive regulation threatens technological and business innovation.



Supply Chain

International conflicts are reshaping the supply chain

Against a backdrop of rising geopolitical tensions, the global landscape has undergone significant changes. Armed conflicts such as Russia's invasion of Ukraine and Hamas terrorist attacks in Israel have marked this new era. In parallel, trade restrictions between the United States and China have contributed to a climate of uncertainty. These events have given rise to terms such as "fragmentation," "de-globalization" and "friend-shoring," which are increasingly used to describe the current situation.

The International Monetary Fund's (IMF) World Economic Outlook report reflects this transformation by mentioning the word "fragmentation" 172 times, compared to just one mention five years ago. In addition, a study by the Bank for International Settlements (BIS) indicates that international value chains are being reconfigured. European and U.S. companies are avoiding direct trade with perceived conflict countries such as Russia and China. However, in their place, they are trading with intermediary countries such as Vietnam. This has led to greater complexity in supply chains, with the incorporation of new players and an increase in the distance between suppliers and end users.

These changes have important implications. First, Western companies remain exposed to geopolitical tensions. Second, oversight of supply chains is becoming more complex in areas such as environmental and social. Finally, cost efficiencies gained through the direct relationship with China are fading, resulting in increased costs for companies.



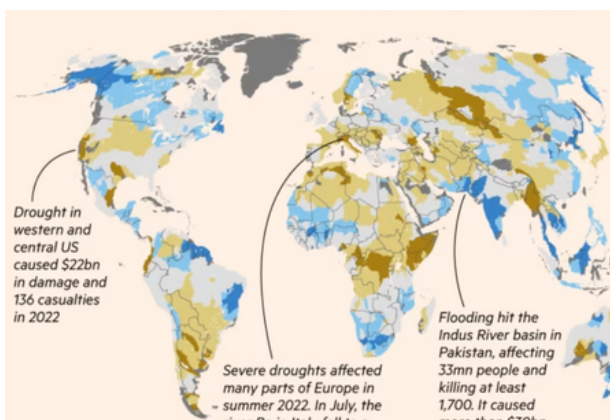
Climate Change

The imbalance of global water cycles

The World Meteorological Organization (WMO) warns that climate change is creating an increasingly unpredictable water cycle, resulting in climate extremes such as floods and droughts. Hydrological cycles are becoming unbalanced, especially in Africa, the Middle East and Asia, and more robust monitoring is needed. Global warming is causing glaciers and ice sheets to retreat, altering the water cycle. Higher temperatures lead to intense precipitation and increased flooding, as well as increased evaporation, dry soils and intensified droughts.

The WMO stresses that most disasters are water-related, and accurate hydrological data are crucial for developing early warning systems. Its report reveals that more than 50% of global water catchment areas and reservoirs deviated from normal conditions in 2022, with most being drier. While some regions face droughts, others suffer from floods, such as the Yangtze River basin in China and the Indus River floods in Pakistan.

The decline of the glacier mass balance in the European Alps is also of concern. In addition, the return of the El Niño climate phenomenon will affect temperatures and rainfall patterns in different parts of the world, with possible flooding in South America and the southern USA, and risk of drought in Australia and Indonesia. These events highlight the urgency of addressing climate change and its effects on the water cycle to protect global water security.



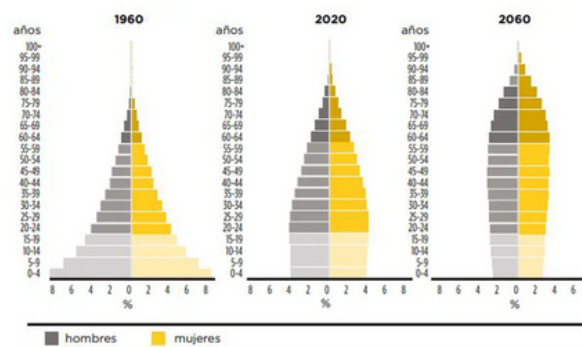
Demographics

Aging population in Latin America

The population is aging. This is a recurring phrase that we have all heard at one time or another. Generally, this problem is associated mainly with European countries. However, Latin America should also start paying attention to this phenomenon. The Economic Commission for Latin America and the Caribbean (ECLAC) projects that the region will reach its maximum number of inhabitants in 2056, when the population will reach 752 million people.

However, declining fertility rates are significantly changing society. According to a recent publication by the Pan American Health Organization (PAHO), the region's young population has declined from 40% in 1960 to less than 24% today. It is projected that the population aged 60 and over will represent 30% of the total population by 2060 and will approach 40% by 2100. Another reflection of Latin America's aging population is that by 2030, there will be more people over 60 than under 15 years of age.

In the southern region of the continent, Uruguay shows advanced aging, with its elderly population exceeding 20% by 2020. However, in 2030, Chile will surpass it as the most aged country in South America. Argentina, on the other hand, does not show an accelerated aging process in this decade, as it has an early demographic transition in the years prior to 2030.



América Latina y el Caribe: distribución de la población, por edad y sexo, 1960, 2020 y 2060. Elaborado a par Naciones Unidas, Departamento de Asuntos Económicos y Sociales, División de Población, World Population Prospects (Fuente: ONU)

Political Processes

Political "outsiders" and their risks in Latin America

In the region and in the United States, politics is transforming with the emergence of outsider leaders and the decline of traditional parties. This phenomenon has been seen in countries such as Brazil, Argentina, Chile, Ecuador, Guatemala, and the United States, where figures such as Donald Trump have challenged the political status quo. Although each country has its particularities, the trend towards anti-establishment candidates has led to the need to rethink regional dynamics. Political strategists, such as Brazilian Renato Pereira, point out that leaders like Bernardo Arevalo in Guatemala and Daniel Noboa in Ecuador, although considered outsiders, do not seek to overthrow the system, but to question the hegemonic parties. However, leaders such as Jair Bolsonaro and Trump have tried to undermine the system and have mobilized their followers with an aggressive and unrestrained discourse.

In this context, hyper-radicalization and the emergence of terms such as communism and fascism are observed in countries such as Brazil, Chile, Argentina and the United States. Although some leaders have attempted to defend democracy in the face of attacks, as in the case of Brazil where a coalition was formed in support of democracy against Bolsonaro, concerns persist about the ability of traditional politicians to provide adequate responses. This crisis of representation has given rise to leaders who manipulate chaos and make attractive promises, creating a messianic cult around them. The situation raises the possibility of a breakdown of the political system or the need for a grand national pact to contain anti-system leaders and protect democracy in the region.



Logistics

The region's ports

Latin American ports play a crucial role in international trade, with maritime transport accounting for 80% to 90% of global trade volume. In 2022, the region's exports experienced 20% growth, driven by a 14% increase in export prices and a 6% increase in exported volume, according to ECLAC.

However, this importance of maritime transport also entails a high exposure to various risks for port infrastructures.

Physical security: Cargo theft is a major threat, especially in countries such as Brazil and Mexico. **Cyber-attacks:** Ports can be targets of targeted cyber-attacks, and the critical information stored at these sites and the abundance of data on digital devices expose them to cyber-criminal activity. **Political risks:** Given their status as critical infrastructure, ports are attractive as targets in situations of armed conflict or internal unrest.

Despite their importance, the region faces challenges in terms of investment and e-security to mitigate risks in its ports. In addition, climate and social threats also add to the concerns.



WHAT WE'VE BEEN READING

Artificial Intelligence:

- Bank of England Blog: [Bias, fairness, and other ethical dimensions in artificial intelligence](#)
- CoinGape: [SEC Chairman Gary Gensler Wants Regulators to Address Finance-Based AI Risks](#)

Political Processes:

- La Nación: [Cómo los outsiders se convirtieron en el nuevo fenómeno político en América Latina.](#)
- Latinoamérica21: [El peligro de los outsiders.](#)

Logistics:

- Bloomberg: [Los puertos de latinoamérica tiene alta exposición a los riesgos.](#)
- WTW: [Informe global de riesgos de las cadena de suministros 2023](#)

Demographics:

- Bloomberg: [La región envejece rápido; ¿está preparada LatAm para ese reto demográfico?](#)
- CEPAL: [América Latina y el Caribe: Estimaciones y proyecciones de población](#)

Climate Change:

- Financial Times: [Global water cycles are 'spinning out of balance'.](#)
- Organización Meteorológica Mundial (OMM): [La OMM reclama mejoras en el monitoreo de un ciclo hidrológico cada vez más errático](#)

Supply Chain:

- Financial Times: [How rising conflict is reshuffling global supply chains](#)
- IMF: [El desafío de las cadenas de suministros.](#)

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