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The Emerging Market Hot Spots for International Trade

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Biography

Tom Danson is the Head of Commercial for Atradius' regional hub in the Midlands (https://group.atradius.com/)

Well regarded in the market, Tom has extensive experience providing bespoke credit insurance solutions to both UK and multinational businesses. Working closely with brokers and customers, Tom demonstrates how trade credit insurance from Atradius facilitates trade and delivers profitable growth for businesses whether trading domestically or overseas.

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Paper type Research

Abstract

If you're looking to expand in overseas markets this year, where should you be looking? The latest Atradius' Promising Emerging Markets Report[1] reveals five potential hot spots for international trade that you could be overlooking. Atradius economists have analyzed global emerging markets trends to identify five candidates as the most promising for the year ahead. Each boasts a mix of trade diversification, strong investment growth and dynamic domestic activity that is driving opportunity for new trade relationships.

In this article, the author reveals the top five promising emerging markets, why they stand out and the opportunities that await businesses within each. Atradius, which acts as a trade partner for business, also provides a timely reminder on implementing a robust risk mitigation strategy to achieve strong and sustainable growth and reap the rewards of international trade.

Introduction

International trade patterns are likely to experience seismic shifts in the coming years as we step into an environment of economic change. Not least in the mix is the expected changing trade relationship that will develop between the UK and Europe as the Brexit situation unfolds. Further afield, the impending trade war between the US and China could change the trajectory of long-standing, established agreements.

With economic uncertainty dominating the landscape, businesses need to consider casting their net wider, and not risk missing out on opportunities that new markets

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might offer. The good news is that despite increasing global pessimism, there are still bright spots for global trade.

Among these is the potential offered by emerging markets that have been developing at a remarkable rate. Growth has typically been driven by an expansion in population and a burgeoning middle class that displays increasing consumer demand and has the disposable income to fulfil aspiration. It wouldn't be an overstatement to say that the role of emerging markets is more important to international trade now than ever before.

However, as the global economy loses steam in 2019, it is also important to recognize that the downside risks for emerging markets could spell trouble for emerging markets around the world. Economic policy uncertainty and volatile commodity prices are weighing down upon many markets. The US-China trade tensions and a greater-than-expected slowdown in the Chinese economy present challenges for emerging economies. So where can businesses turn to find new markets with strong growth prospects and lower vulnerability to global headwinds?

In its latest economic research[1], Atradius has analyzed global emerging markets to identify those which stand out as beacons for trade growth, presenting a robust economic outlook, supported by stable, domestic fundamentals. Key indicators include steady or accelerating GDP growth fuelled primarily by private consumption and fixed investment, alongside sufficient external buffers and a flexible exchange rate which reduces risk to global volatility. In addition, stable political and institutional conditions are important factors that underpin this growth.

Our economic research team has identified five potential candidates as the most promising for 2019: Bulgaria, Indonesia, Vietnam, Peru, and Morocco. Each boasts a mix of trade diversification, strong investment growth and dynamic domestic activity that is driving opportunity especially in consumer-orientated trade sectors as well as within manufacturing and infrastructure.

Figure 1: Emerging markets in the spotlight 2019

Country	GDP growth % 2019	10-year avg. GDP growth	Population (mln)	GDP (USD billion)	Private consumption (% y-o-y)	Real fixed investment (% y-o-y)	Political risk rating	
Bulgaria	3.5	2.4	7.0	68.0	4.3	4.6	4 negative	Moderate-low
Indonesia	5.1	5.4	269.9	1146.6	5.1	6.3	4 negative	Moderate-low
Vietnam	6.7	6.3	97.4	265.5	7.0	7.8	5 negative	Moderate
Morocco	3.3	3.5	36.6	124.7	3.3	2.8	4 negative	Moderate-low
Peru	3.9	4.7	32.9	242.1	3.9	-0.1	4 stable	Moderate-low

Sources: Atradius, Oxford Economics

Bulgaria: bucking the trend in Eastern Europe

While Eastern Europe is losing steam, driven by sanctions on Russia and an evendeeper-than-expected contraction in Turkey, Bulgaria stands out from its regional neighbours. The market has a positive economic outlook with GDP growth forecast to rise from 3.3% to 3.5% this year, fuelled by domestic demand and fixed investment.

Household incomes are increasing, supported by higher wages and low domestic interest rates, which is leading to a rise in demand for exports. Opportunities for exporters are ample in the consumer durables and the food and beverage sectors. Imports have also sharply increased in the machinery sector while the chemicals sector is also well supported. In agriculture, an increased output will create higher demand for fertilizer imports. Positively, Bulgaria also has a sustainable currency peg to the euro, which underpins macroeconomic stability and reduces currency risk.

Vietnam: An attractive market for exporters

As the most export-orientated of our promising markets and a GDP growth forecast of 6.7%, Vietnam has a population of more than 95 million and is home to Southeast Asia's fastest growing middle class – representing an important market for foreign goods. Vietnam's economy benefits from high wage growth supporting private consumption and government liberalization policies stimulating higher business investment. Vietnam's high degree of openness is also a strength, as its export products and destinations are highly diversified and the country actively pursues the closing of free-trade deals, both bilaterally and as a member of ASEAN. While it is heavily exposed to US-China trade tensions, it stands to gain from rising tariffs; UNCTAD estimates a 5% gain in total exports due to tariff increases.

Diversification of trade away from China could offer opportunities for Vietnam's textiles sector, forecast to grow 15% this year. Vietnam's young population with a tendency for eating out makes an attractive potential market for food and beverage businesses. With robust economic growth, an upsurge in infrastructure and construction activities and strong demand for fuels across transportation, aviation, and residential sectors, Atradius also expects continued high growth in the chemicals sector, especially fuels.

Indonesia: Shining in Emerging Asia

Fellow ASEAN member Indonesia also enjoys high and stable growth rates with GDP forecast to increase by 5.1% this year, underpinned by a stable political situation and strong fundamentals. Vulnerability to global monetary tightening due to high rates of unhedged foreign-currency borrowing by companies has eased now that the Fed has taken a more dovish stance. High economy-wide buffers also underpin its stable outlook.

Rising incomes, coupled with job growth and higher public spending should continue to underpin private consumption growth, offering promising prospects in the consumer durables and food and beverage sectors. Demand for food is expected to continue growing and e-commerce is booming as the number of internet users expands. Growth in e-commerce, which increases demand for packaging, alongside a recovery in the Indonesian manufacturing sector, is also contributing to rapidly increasing demand in the chemicals/plastics sector. This is

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supported by public expansion of the petrochemical and fertilizer industries. As the government aims to expand petrochemicals, it is undertaking large-scale power projects, especially in renewable energy sectors. This is feeding significant demand for infrastructure, especially transport infrastructure. High construction activity for electricity and transport development will also continue to drive import growth in the machinery sector.

Peru: An Andean state above the clouds

Latin America is expected to see some increase in economic activity in 2019 but ongoing political volatility and slowdowns in some individual markets increase uncertainty. Peru, however, is a very stable market with a regionally high growth rate of around 4%. The government has a strong track record of prudent, business-friendly policymaking, although progress on structural economic reforms is slow. The business environment is further supported by investment grade sovereign credit ratings, strong institutions, and a sound external environment.

Notable growth prospects can be found in Peru's primary industry sector. Enlarged anchovy fishing and higher hydrocarbon production in particular are expected to drive growth in the industry. New mines are also being developed by private companies which is boosting private sector investment. This feeds into ongoing growth in the construction sector as public investment decreases with the conclusion of large public infrastructure projects this year, such as locations for the Pan-American Games and the second line of Lima's subway. Overall export opportunities to Peru are supported by the country's liberal trade stance, which is also helping it reduce exposure to commodity price fluctuations. With a relatively large domestic market characterized by more than 30 million people with rising incomes, and high consumer confidence, the food and beverage and consumer durables sectors also have high growth potential.

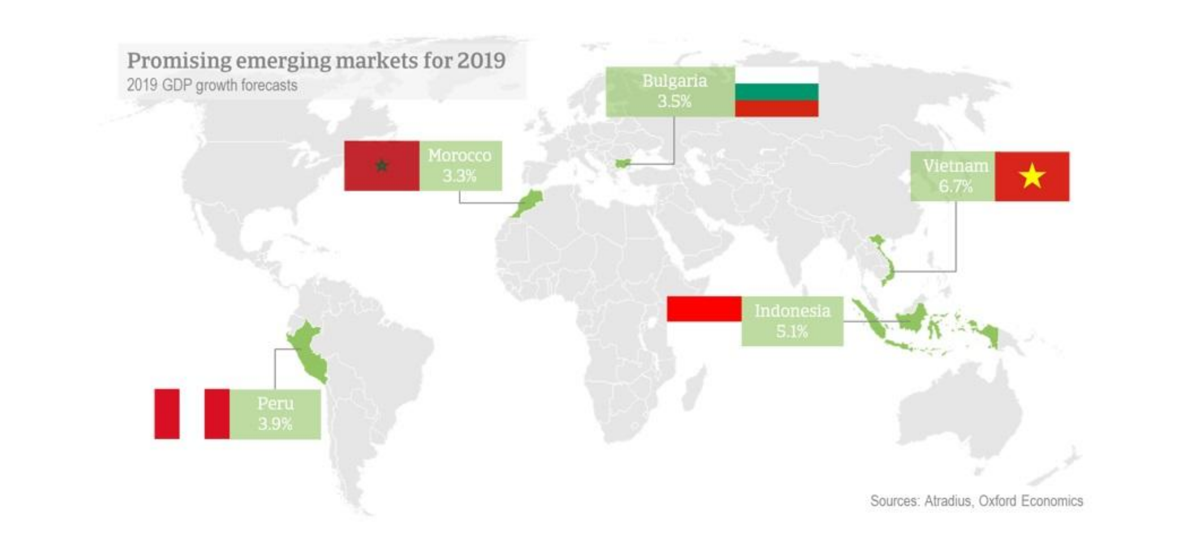
Morocco: Bucking the MENA trend

Subdued growth is on the cards for the Middle East & North Africa region due to weak oil output growth and geopolitical tensions in some countries. However, Morocco is bucking the trend with a GDP growth forecast to accelerate to 3.3% in 2019, from 2.8% in 2018.

The economic outlook for Morocco is improving thanks to a cyclical upturn in agricultural production, as well as stronger non-agricultural growth, especially in the manufacturing sector supported by increasing government investment spending. The political situation is relatively stable and is expected to remain so over the coming years despite elevated social tensions. Morocco's exchange rate is managed against a basket of currencies, primarily the euro and dollar, but the authorities are taking steps to liberalize the exchange rate which will help absorb external shocks and maintain competitiveness.

Morocco is a strategic hub for trade and investment between Europe and Africa and between North America and the Middle East. With close proximity to European markets and heavy investment, the export-oriented manufacturing industry – especially automotive – has high growth potential. There is also strong potential in the tourism industry, which has recorded average annual 6% growth since 2000 and climbing to 8.5% in 2018. Morocco's infrastructure is of a high standard supporting travel, and other industries like food and beverage and services, which stand to benefit from the strong growth. With good infrastructure, Morocco's renewable energy sector is also seeing strong growth, with potential opportunities for imports. The country already sources about 35% of its power from renewables, especially from concentrated solar power. There are projects in the pipeline and high demand for growth here following the government's target to increase renewable energy's share to 42% by 2020.

Figure 2: Promising emerging markets for 2019



Risk mitigation essential to international trade

Businesses are constantly striving to seek new trade opportunities around the world, whether as a potential export or import partner. However, success in international trade only comes with the right business strategy which includes expert insight into your chosen market.

Changes in the political and economic landscape can have a major impact on a trading partner and potentially influence their ability to pay. Businesses must ensure they are well equipped with up-to-date information and analysis so they can separate good opportunities from ones fraught with risk. As a trade credit insurer, Atradius' role is not only about paying claims in the event of non-payment; we work with customers from the beginning of a trade journey to help spot the right opportunities and constantly evaluate the businesses our customers are trading with, as well as the wider market to mitigate the risks. As a trade partner, it's our aim to enable a successful trade relationship, supporting sustainable and robust growth, supporting businesses to reap the rewards of international trade.

Reference

[1] https://atradius.co.uk/reports/economic-research-promising-emerging-markets-2019.html