

# Promising emerging markets for 2019

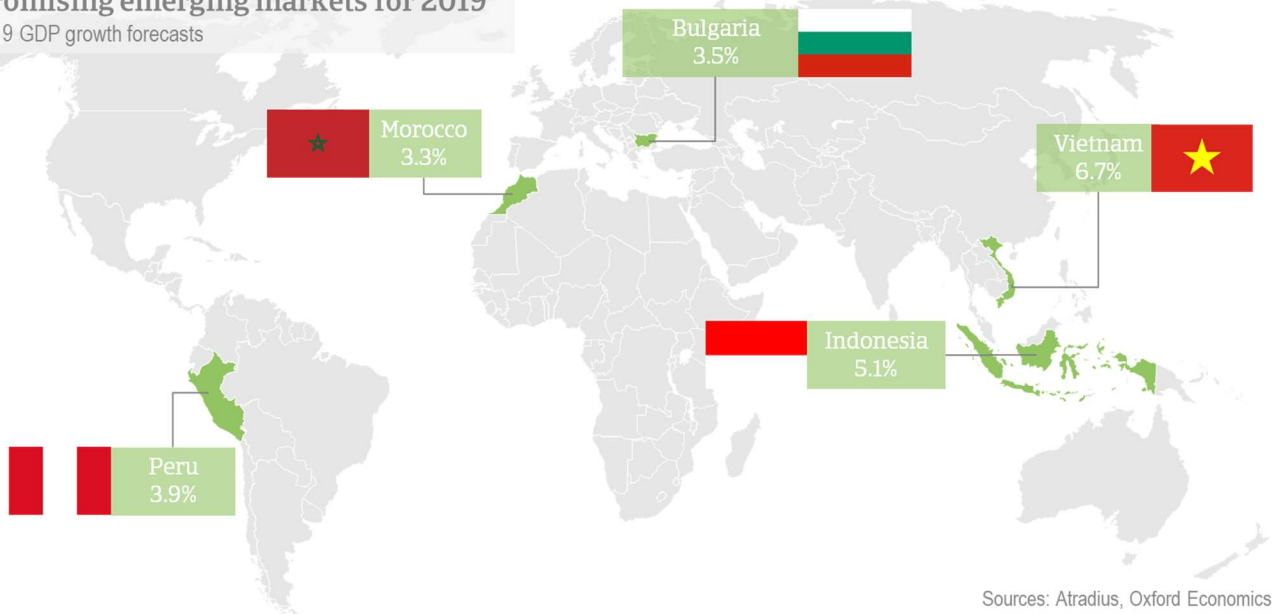
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## Summary

- Despite increasing clouds on the horizon, there remain several bright spots for export opportunities in emerging markets. Bulgaria, Indonesia, Vietnam, Peru, and Morocco shine in 2019 as markets with strong growth prospects and limited vulnerability to global headwinds.
- Increasing trade diversification, strong investment growth, and dynamic domestic markets drive opportunities especially in these markets' consumer-oriented trade sectors, as well as manufacturing and infrastructure.

### Promising emerging markets for 2019

2019 GDP growth forecasts



Sources: Atradius, Oxford Economics

## A few bright spots in an increasingly cloudy outlook

As the global economy loses steam in 2019, the downside risks for emerging markets are coming to the forefront. Following what started as a very strong year, the US-China trade dispute and tightening global financial conditions created increasing uncertainty in the second half of 2018. Looking forward, economic policy uncertainty remains a key source of worry. While central banks across advanced markets are slowing their pace of monetary normalisation, the downside risks associated with US-China trade tensions and, similarly, a greater-than-expected slowdown in the Chinese economy could spell trouble for emerging markets around the world. Slowing growth and higher political uncertainty across advanced markets alongside more volatile commodity prices add to the list of threats to the outlook. However, despite increasing global pessimism and uncertainty, there are still bright spots for global trade.

While opportunities can be found around the globe, in order to identify markets that stand out we look for economies with a robust economic outlook supported by stable, domestic fundamentals. We base this on three key criteria that, while not always being fully met, are satisfied in these markets better than others. (1) Steady or accelerating GDP growth fuelled primarily by private consumption and fixed investment, alongside (2) sufficient external buffers and flexible exchange rate reduce these countries' risks to global volatility. (3) Stable political and institutional conditions are also important factors that underpin this growth. Based on these broad criteria alongside our market experience, we have identified Bulgaria, Indonesia, Vietnam, Peru, and Morocco this year.

### Bulgaria bucking the trend in Eastern Europe

Eastern Europe is losing steam, driven by sanctions on Russia and an even-deeper-than-expected contraction in Turkey. **Bulgaria** stands out in the region with GDP growth forecast to accelerate to 3.5% from 3.3% in 2018. Despite close economic ties to Turkey, the outlook is positive, driven by domestic demand and fixed investment. Bulgaria has a sustainable currency peg to the euro, which underpins macroeconomic stability and reduces currency risk.

As household incomes increase, supported by higher wages and low domestic interest rates, demand for imports is rising. Opportunities for exporters are especially ample in the **consumer durables** and **food & beverage** sectors. With the EU's 2014-2020 budget cycle well underway, investment is also contributing positively to growth. EU subsidies are helping the **machinery** sector, where imports sharply increased by 13.4% year-on-year in January to September 2018. EU subsidy beneficiary programmes aimed at enhancing efficiency and productivity, and expanding the green energy sector are main drivers of industry growth. Machinery sector performance is also driven by the supportive stance of domestic banks towards well-performing businesses. The **chemicals** sector also benefits from EU subsidies as well as government support. Agriculture, traditionally one of Bulgaria's main sectors, is expected to continue increasing its output, driving higher demand for fertilizer imports.

### Vietnam and Indonesia shine in Emerging Asia

The outlook for Emerging Asia remains robust despite an ongoing gradual slowdown in China. Vietnam and Indonesia (respectively 6.7% and 5.1% GDP growth forecast in 2019) stand out in this growing area.

**Vietnam** is by far the most export-oriented economy presented here (the value of exports of goods and services is larger than the country's GDP). Its economy also benefits from high wage growth supporting private consumption and government liberalisation 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.

As a highly open economy, Vietnam is heavily exposed to US-China trade tensions, but the country also stands to gain some from the rising tariffs between the world's two biggest economies. UNCTAD estimates a 5% gain in total exports due to the current and potential tariff increase coming on March 1<sup>st</sup>. Diversification of trade away from China could offer opportunities for Vietnam's large **textiles** sector. The sector is forecast to grow 15% in 2019, further supported by the EU-Vietnam free-trade agreement and the trans-Pacific CPTPP trade agreement, which will also come into effect this year.

On the domestic side, Vietnam also has several sectors where we expect to see strong growth in import demand this year. With a population of more than 95 million and Southeast Asia's fastest growing middle class, Vietnam clearly represents an important market for foreign goods. Vietnam's young population with a tendency for eating out make it one of the most attractive potential markets for **food & beverage**. With robust economic growth, an upsurge in infrastructure and construction activities and strong demand for fuels across transportation, aviation, and residential sectors, we also expect continued high growth in the **chemicals** sector, especially fuels.

Fellow ASEAN member **Indonesia** also enjoys high and stable growth rates, 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 ahead of the April 2019 presidential and general elections, should continue to underpin private consumption growth, offering promising prospects in the **consumer durables** and **food & 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 also supported by public expansion of the petrochemical and fertilizer

## 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

industries. As the government aims to expand petrochemicals, it is also 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.

### Morocco: solar powered

Subdued growth is in the cards for the Middle East & North Africa 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 also 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 liberalise the exchange rate which will help absorb external shocks and maintain competitiveness. A precautionary liquidity line from the IMF ensure external stability.

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 & 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.

### 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 in 2019 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, such as the Toromocho mine expansion, Mina Justa, and Quellaveco, which are 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. Peru has established trade agreements with the US, EU, China, Mercosur, among other markets. It is also a member of the new CPTPP and just signed a new free-trade agreement with Australia. Finally, with a relatively large domestic market characterised by more than 30 million people with rising incomes, and high consumer confidence, the **food & beverage** and **consumer durables** sectors also have high growth potential.

### Conclusion

While the peak of this economic cycle is in the rear-view mirror and increasing uncertainty continues to grab headlines, opportunities for trade in new markets can still be found. The countries listed above may not be the fastest growing markets, but they experience stable or accelerating growth coupled, with favourable business conditions, robust payment behaviour, and growth opportunities across several sectors. With strong, domestically-driven growth, there are opportunities in most of these markets' consumer durables and food & beverage sectors. With supportive policies and increasing investment, construction and infrastructure also have high growth potential.

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