2020

# COFACE COUNTRY & SECTOR RISKS HANDBOOK

MAJOR TRENDS OF THE WORLD ECONOMY

ANALYSIS AND FORECAST FOR 162 COUNTRIES AND 13 SECTORS

coface FOR TRADE

# This handbook is intended for:

— Corporate executives with decisions to make in terms of export, project launches, or investment in high risk countries;

— Managers of risk or international operations in banking, multilateral financial institutions, and insurance or reinsurance companies (acting in a private capacity or on behalf of government);

— Government managers concerned with country risk;

— Consultants and lawyers specialized in international business;

— Researchers, academics, and students interested in country risk.

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ANALYSIS AND FORECASTS FOR 162 COUNTRIES AND 13 SECTORS

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# World trade in the face of political and environmental change

**— Xavier Durand —**
CEO of Coface

The Sino-American trade war, customs duties, sanctions against companies, import quotas... the use of expressions highlighting the rise of trade protectionism and its consequences on international trade has multiplied over the last year. This reflects the reality: the total number of protectionist measures implemented worldwide exceeded 1000 in 2018 and 2019 according to Global Trade Alert, about 40% more than in the previous three years. That said, «only» 23% of all protectionist measures taken between 1st January 2017 and 15th November 2019 were decided by the United States or China. Therefore, protectionism is not exclusive to the world's two largest economies. The desire of many emerging countries to protect a large number of industries, weakened by international competition, will continue to make them cautious about opening up to trade. In this context, despite the willingness of other countries to compensate trade losses by signing new trade agreements, international trade in goods volumes were lower than a year earlier in 2019, for the first time in ten years.

In 2020, the performance of international trade will still largely depend on the political environment: at first glance, while the occurrence of the first concrete effects of the trade war on the American and Chinese economies argues for a gradual easing, the actions of the American president remain difficult to predict in the context of a campaign for re-election, weaker economic growth and a less buoyant job market. Furthermore, fundamental strategic divergences with China will remain: Hong Kong, Taiwan, the South China Sea, the race for innovation in several key sectors of activity... However, this year, the United States will still have room for manoeuvre to put pressure on China. Regarding tariff measures, it is still possible to increase existing customs duties (D. Trump had stated during the 2016 presidential campaign that he would establish customs duties on Chinese imports at 45%!). Non-tariff measures are also possible (sanctions against companies, bans on imports of certain products from specific countries, etc.). In any case, these persistent uncertainties should continue to weigh on company morale.

However, the rise of trade protectionism is not the only reason for this recent inflexion of international trade and industry. Another non-economic factor is at work: the consideration of environmental risks. As a matter of fact, while the implementation of stricter anti-pollution norms is welcome to reduce these risks in the medium term, it also promotes the rise in credit risk for companies that have difficulty adapting to these short-term upheavals. The recent examples of the automotive sectors in the European Union and China are significant. This year, companies in this sector should be affected in the United States and India. Similarly, in the global shipping sector, the effects of the introduction of stricter anti-pollution standards will also be felt.

On a brighter note, at this stage, the contagion effects of industry on service activities are not very visible in Europe and the United States. In their recent history, industrial recessions have not

## “In the emerging world, public and corporate debt will be the main focus in 2020.” **— Xavier Durand**

always coincided with a recession for the economy as a whole - far from it. In this context, on both sides of the North Atlantic, economic growth is slowing but not collapsing, especially since many central banks have acknowledged this slowdown and announced monetary easing measures. The number of corporate insolvencies is rising, but at a slow pace and often from a low base level.

In the emerging world, debt will be the main focus in 2020. For states, public debt is increasing in all regions except Central and Eastern Europe. In Latin America, it is higher than at the end of the 1990s, a period marked by recurring debt crises. In Africa, it is close to the level observed around fifteen years ago, a period of debt write-offs by international and bilateral donors. For companies in these regions, this means that government arrears are likely to increase this year. The only good news is that the structure of the sovereign debt in emerging countries is generally more favorable than twenty years ago: 80% of it is now denominated in local currency. However, that is not the case for companies: since 2007, corporate debt in emerging countries denominated in foreign currency has doubled and exceeded USD 7 trillion, seven times more than the sovereign debt of emerging countries denominated in foreign currency. Naturally, in some countries such as China, corporate debt is admittedly in local currency, but at a very high level.

Speaking of China, the slowdown in growth and its consequences on corporate credit risk are still relevant. The former is taking on new forms: it is no longer solely reflected by the difficulties of companies in sectors of activity constrained by production overcapacity and high debt (construction and metals in particular), since household consumption is also showing signs of fatigue. For example, for the first time in twenty years, the number of car sales fell in 2018 and 2019, a sign that the market is maturing, that household debt is rising, but also that new anti-pollution norms have affected manufacturers. Exporting companies penalized by US protectionist measures also saw their financial situation deteriorate last year, for instance in the electronics sector. Finally, as in previous years, the health of small and medium-sized banks, considered the most fragile, is to be monitored. The effects of the Chinese slowdown on the rest of the emerging world should continue to draw attention this year. Indeed, many countries would be penalized by a sharper than expected landing of growth in China, through one of the possible transmission channels: direct trade links, investments and loans from the Middle Kingdom abroad, world commodity prices or even a global confidence shock on the financial markets.

Finally, as every year, there will be many political uncertainties in the world. Particularly, the holding of elections or, as we saw in 2019, the introduction of a tax or an increase of a public tariff, may be the straw that breaks the camel’s back on political risk, specifically in areas where social frustration is fueled by high unemployment, income inequality, corruption or lack of political freedom. This will be the case (to name the main ones) in Côte d’Ivoire, Chile (referendum on the change of Constitution), Hong Kong, Egypt, Bolivia, and of course the United States, especially since some of these countries are among those where social tensions have already been high last year. Last but not least, in Europe, the fragmentation of political scenes resulting from the rise of non-traditional parties is making governments increasingly fragile. In Italy, will the ruling coalition manage to exist until the end of the year, when early elections (which would probably be favorable to anti-European parties) are inevitable? In Spain, will the formation of a governing coalition finally materialize? Will trade negotiations between the UK and the EU be successful?

The twenty-fourth edition of this guide attempts to answer these questions and discusses many other economic, political, financial, environmental and sectoral risks. I wish everyone an excellent reading of this handbook that Coface publishes every year.

# How to use the handbook

## SECTORS

### 1 Sector name

### 2 Coface Regional Sector Risk Assessments

This assessment indicates the risk presented by companies in the sector in regions around the world as considered by Coface in its quarterly sector assessments.

### 3 Analysis of Strengths/Weaknesses

A summary of the sector's global strengths and weaknesses.

### 4 Risk Analysis Synthesis

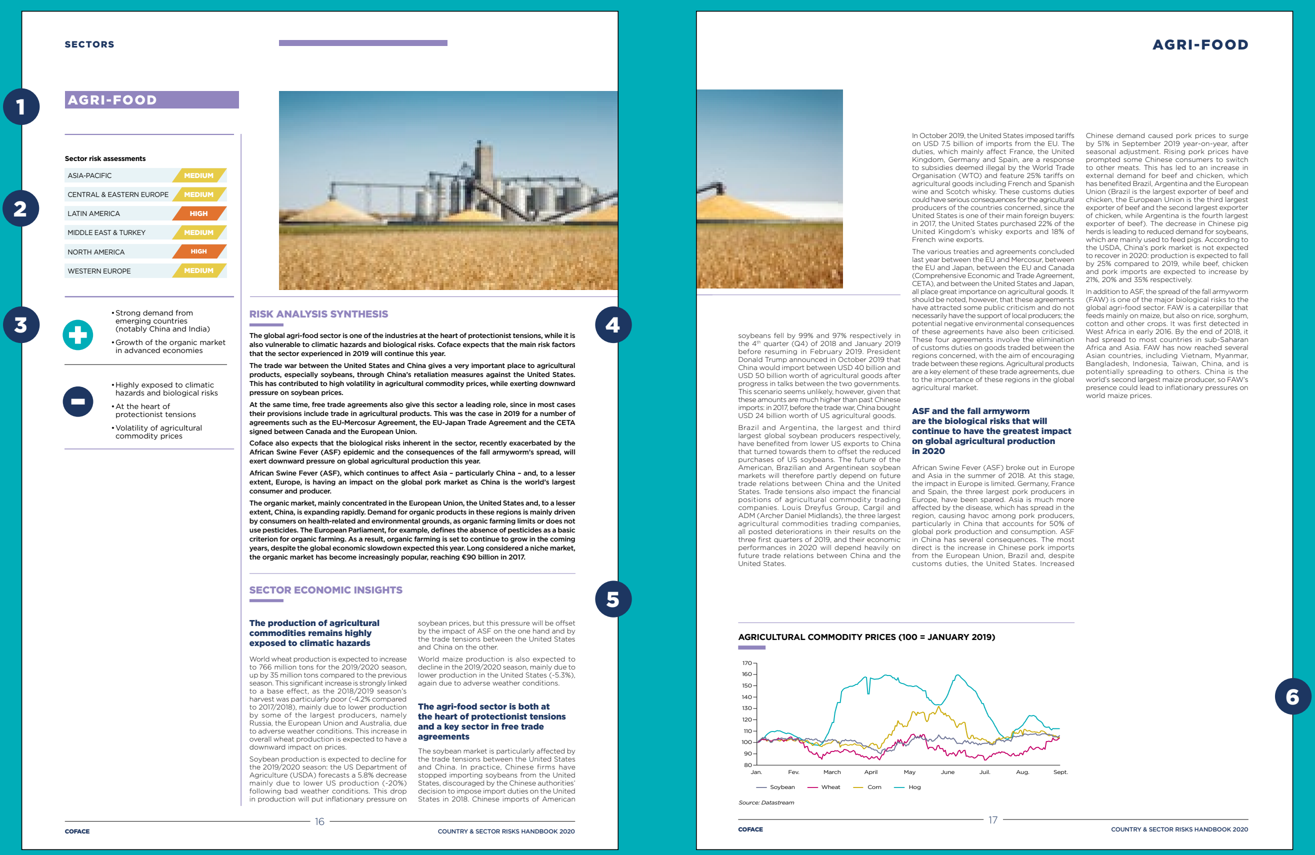
You will find in this section a synthetic analysis of economic and financial development in the markets as well as main risks in the point sector in terms of global trends. It broadly summarizes insights presented in the Sector Economic Insights section.

### 5 Sector Economic Insights

This section presents Coface's in-depth analysis of the sector global trends including the outlook for supply and demand for the coming year.

### 6 Sector Chart

This graph highlights one or more key aspects of developments in the sector.




# COUNTRY PROFILES

### 1 Country and location

A map allows you to locate the country.

### 2 Country risk assessment

"Country Risk" indicates the average risk presented by firms in a country as part of their short-term commercial transactions.

### 3 Business climate assessment

This assessment, which complements the country assessment, measures the quality of the country's business environment: overall reliability of company accounts, legal system, institutional and regulatory environment.

### 4 Population, GDP, and Local Currency

This box shows the population of the country in 2018, the GDP per capita in 2018, and the local currency as well as its ISO code.

### 5 Exports and imports

Distribution of exports (or imports) by country of destination (or origin). The sources used are IMF and UNCTAD statistics for 2018.

### 6 Analysis of strengths/weaknesses

A summary of the country's strengths and weaknesses.

### 7 Sector risk assessment

This assessment indicates the level of short-term risk for 13 sectors of the country's economy.

### 8 Economic indicators

At a glance, see the major macroeconomic aggregates essential to understanding the economic environment in a country as well as forecasted changes.

### 9 Risk assessment

In this section you will find a macroeconomic and microeconomic analysis of the country, as well as the most important prospective elements for the current year.

### 10 Payment and collection practices

This section is a valuable tool for corporate financial officers and credit managers. It provides information on the payment and debt collection practices in use in the country.

### 11 Business insolvencies

Total number of business insolvencies and its yearly growth rate.

# TOOLS FOR IDENTIFYING, ASSESSING AND MONITORING THE RISKS BUSINESSES ARE FACING

As a credit insurer, Coface's added value comes from its ability to proactively provide its clients with detailed risk analyses, allowing them to make the right decisions at the right time and prevent credit risks. Its analyses include country and business climate assessments for 162 countries, as well as sector risk, and assessment of companies default rate. Regular economic publications supplement these assessments developed by Coface.

## Country risk assessment*

The country assessment provides an insight into the average payment incident level presented by companies in a country in connection with their short-term trading transactions. More specifically, this assessment measures the way in which company payment behaviour is influenced by a country's economic, financial, and political perspectives, as well as by the business climate. It is based on three pillars: macroeconomic, financial and political analysis, business climate assessment by Coface's entities across the world, and Coface's payment behaviour experience as recorded in its worldwide database. The country risk assessment covers 161 countries on an 8-step scale: A1, A2, A3, A4, B, C, D, E, in order of increasing risk.

## Business climate assessment*

This makes it possible to see whether company accounts are available and reliable, whether the legal system ensures fair and effective protection of creditors, whether the country's institutions provide a favourable framework for B2B transactions and whether the domestic market is easy to access. The assessments are based on data from international organisations, but also, and primarily, on the experience of Coface's entities across the world. This assessment, integrated in the country assessment, covers 161 countries on an 8-step scale: A1, A2, A3, A4, B, C, D, E, in order of decreasing business climate quality.

## Sector risk assessment*

Every quarter, Coface reviews the assessments of 13 sectors throughout 28 countries (representing approximately 88% of global GDP) in 6 major regions of the world. In order to assess these risks, Coface relies on its own methodology based on four cornerstones: an estimate of corporate defaults (by country) payment periods recorded by buyers (aggregated by sector), financial results entreprises (aggregated by sector), and payment experience recorded by Coface for each sector. The sector risk assessment is on a 4-step scale: low, medium high, very high, in order of increasing risk (see p. 14).

## Assessment of company default rate

The DRA (Debtor Risk Assessment) measures the default rate of companies all over the world. It is calculated on the basis of indicators such as financial soundness, profitability, solvency, as well as the company's environment and management. The assessment scale ranges from 0 (company in default) to 10 (best possible rating). The DRAs are made available to Coface clients on a dedicated website: Cofanet.

## Economic publications*

Coface regularly publishes economic publications that deal with country risk, sector risk, and the risk of company insolvency.

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* Assessments and studies available on http://www.coface.com/Economic-Studies-and-Country-Risks.

# GLOSSARY

## A

**ACA:** Affordable Care Act (also known as Obamacare)

**ADB:** Asian Development Bank

**AFD:** Agence française de développement (French Development Agency)

**AfDB:** African Development Bank

**Afreximbank:** African Import-Export Bank

**AFTA:** ASEAN Free Trade Area

**AGOA:** African Growth and Opportunity Act - allows sub-Saharan African Country that are part of the scheme to export duty-free on the American market.

**AIIB:** Asian Infrastructure Investment Bank - multilateral financial institution created in 2014 to address infrastructure needs in Asia, which has since expanded to include members on all continents.

**AMISOM:** African Union Mission in Somalia

**APEC:** Asia-Pacific Economic Cooperation

**AQIM:** Al-Qaeda in the Islamic Maghreb

**ASEAN:** Association of Southeast Asian Nations

**AU:** African Union

## B

**B2B:** Business-to-Business

**BCEAO:** Banque Centrale des États de l'Afrique de l'Ouest (Central Bank of West African States)

**BDI:** Baltic Exchange Dry Index - Maritime tranport price index that takes into account 3/4 of ore and 1/4 of loose agricultural products flow

**BEAC:** Banque des Etats de l'Afrique Centrale (Bank of Central African States)

## C

**CAFTA-DR:** Domnican Republic-Central America FTA

**CAR:** Central African Republic

**CARICOM:** Caribbean Community and Common Market - Organisation briging together 15 Caribbean states or dependencies with the aim of economic integration

**CARIFORUM:** Caribbean Forum of African, Caribbean and Pacific states (ACP) linked to the European Union

**CBO:** Congressional Budget Office

**CDF:** Cancer Drug Fund

**CEMAC:** Central Africa Economic and Monetary Community

**CETA:** Comprehensive Economic and Trade Agreement (EU-Canada)

**Chaebols:** Large industrial conglomerates that are run and controlled by a South Korean owner (typically families)

**CICE:** Crédit d'impôt pour la compétitivité et l'emploi (Competitiveness and Employment Tax Credit)

**CIS:** Commonwealth of Independent States

**CLS:** Continuous Linked Settlement System

**COFFI:** Committee on Forests and the Forestry Industry

**COLA:** Cost of Living Allowance

**CPEC:** China-Pakistan Economic Corridor

**CPTPP:** Comprehensive and Progressive Agreement for Trans-Pacific Partnership

**CSG:** Contribution Sociale Généralisée (Generalised Social Contribution)

## E

**EAC:** East African Community

**EBRD:** European Bank for Reconstruction and Development

**ECB:** European Central Bank

**ECF:** Extended Credit Facility - IMF programme that provides financial assistance to countries with protracted balance of payments problems. The IMF's main tool for providing support to low-income countries, created under the PRGT.

**ECOWAS:** Economic Community of West African States

**EEU (or EAEU):** Eurasian Economic Union

**EFSD:** Eurasian Fund for Stabilization and Development

**EFTPOS:** Electronic Funds Transfer at Point of Sale

**EIA:** US Energy Information Administration

**EIB:** European Investment Bank

**EITO:** European IT Observatory

**EMU:** Economic and Monetary Union

**ERM II:** European Exchange Rate Mechanism

**EU:** European Union

## F

**FAO:** United Nations Food and Agriculture Organisation

**FARC:** Fuerzas Armadas Revolucionarias de Colombia (Revolutionary Armed Forces of Colombia)

**FDA:** US Federal Drug Agency

**FDI:** Foreign Direct Investment

**Fed:** Federal Reserve of the United States

**FOMC:** Federal Open Market Committee

**FTA:** Free Trade Agreement

**FY:** Financial Year

## G

**G20:** A group of the heads of state or of government, finance ministers and central bank governors of 19 countries: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, South Korea, Mexico, Russia, Saudi Arabia, South Af

**G5 Sahel:** Institutional framework for development and security cooperation regrouping Burkina Faso, Mali, Mauritania, Niger and Chad.

**GAFTA:** Greater Arab Free Trade Area

**GCC:** Cooperation Council for the Arab States of the Gulf, know as the Gulf Cooperation Council

**GDP:** Gross Domestic Product

**GNP:** Gross National Product

**GRAINE:** Gabonaise des Réalisations Agricoles et des Initiatives des Nationaux Engagés (Gabonese Initiative for Achieving Agricultural Outcomes with Engaged Citizenry)

**GST:** Goods and Services Tax

## H

**HDI:** Human Development Index created by the UN

**HIPC:** Heavily Indebted Poor Countries (Initiative)

**HOPE (act):** Hemispheric Opportunity Through Partnership Encouragement

## I

**IATA:** International Air Transport Association

**ICC:** International Criminal Court

**ICJ:** International Court of Justice

**ICSID:** International Centre for Settlement of Investment Disputes

**ICT:** Information and Communication Technology

**IMF:** International Monetary Fund

## L

**LNG:** Liquified Natural Gas

**London Club:** Informal group of private bank creditors that deals with public sector debt

## M

**MDRI:** Multilateral Debt Relief Initiative

**MERCOSUR (or MERCOSUL):** South American Common Market - includes Argentina, Brazil, Uruguay, Paraguay and Venezuela

**MSR:** Maritime Silk Road

## N

**NAFTA:** North American Free Trade Area

**NAHB HMI:** National Association of Home Builders Housing Market Index

**NATO:** North Atlantic Treaty Organisation

## O

**ODA:** Official Development Assistance

**OECD:** Organisation for Economic Cooperation & Development

**OPEC:** Organisation of Petroleum Exporting Countries

**OSCE:** Organisation for Security and Co-Operation in Europe

## P

**Pacific Alliance (Alianza del Pacifico):** Trade agreement including Chile, Colombia, Peru and Mexico

**Paris Club:** Official creditor's informal grouping

**PDVSA:** Petróleos de Venezuela, S.A. (Petroleum of Venezuela) - Venezuelan state-owned oil and natural gas company

**Petrocaribe:** Energy cooperation agreement between Caribbean countries and Venzeula enabling the former to buy oil on preferential terms

**PPP:** Public-Private Partnership

**PRGT:** Poverty Reduction and Growth Trust - IMF's special low-interest lending programme for poor countries with structural balance of payments difficulties

**PVC:** Polyvinyl Chloride

## R

**R&D:** Research and Development

## S

**SACU:** South African Customs Union of five southern African countries (South Africa, Lesotho, Botswana, Namibia, Swaziland), created in 1969

**SADC:** Southern African Development Community

**SAR:** Special administrative region

**SCFI:** The Shanghai Shipping Freight Index reflects the export rate of the containers transportation. It includes freight rate (Shanghai) indices of 15 martimes roads and a composite index (Freight indices reflect the maritime freight and other maritime road tax

**SDR:** Special Drawing Right

**SEPA:** Single Euro Payments Area

**SMEs:** Small- and Medium-sized Enterprises

**SOCAR:** State Oil Company of Azerbaijan Republic

**SOE:** State-Owned Enterprises

**SOFAZ:** State Oil Fund of Azerbaijan

**SWF:** Sovereign Wealth Fund

**SWIFT:** Society for Worldwide Interbank Financial Communication - an organisation with a system for the electronic transfers of funds between member banks in Europe and North America

## T

**TANAP:** Trans-Anatolian Natural Gas Pipeline

**TAP:** Trans Adriatic Pipeline

**TPP:** Trans-Pacific Partnership

**TTIP:** Transatlantic Trade and Investment Partnership

## U

**UK:** United Kingdom of Great Britain and Northern Ireland

**UN:** United Nations

**UNASUR:** Union of South American Nations

**UNECE:** United Nations Economic Commission for Europe

**UNMIL:** United Nations Mission in Liberia

**UNSMIL:** United Nations Support Mission in Libya

**US(A):** United States (of America)

**USDA:** United States Department of Agriculture

**USMCA:** United States-Mexico-Canada Agreement

## V

**VAT:** Value Added Tax

## W

**WAEMU:** West African Economic and Monetary Union

**WB:** World Bank

**WTO:** World Trade Organization

**DISCLAIMER**

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