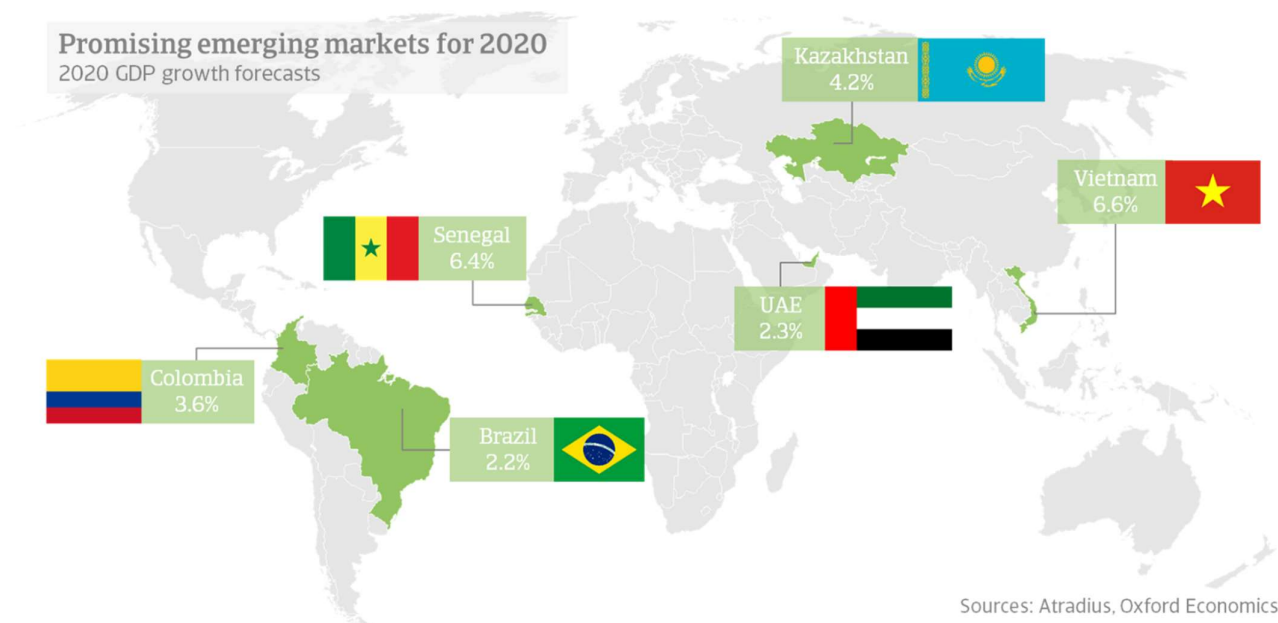


# Promising emerging markets for 2020

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## Summary

- Despite ongoing trade disputes and increased geopolitical uncertainty, there remain several bright spots for export opportunities in emerging markets
- Brazil, Colombia, Kazakhstan, the United Arab Emirates, Senegal and Vietnam shine in 2020 as markets with strong growth prospects and limited vulnerability to global headwinds
- Increasing trade diversification, strong investment growth, and dynamic domestic markets provide opportunities for investors and exporters especially in these markets' consumer-oriented trade sectors



## Bright spots in a world economy challenged by geopolitical and trade uncertainty

Both geopolitical uncertainty and a slowing Chinese economy triggered a global manufacturing downturn, weighing on growth in 2019. Additionally, increased social unrest in several countries and weather-related disasters posed challenges. However, there are indications that growth is bottoming out. The effects of monetary policy easing across advanced and emerging markets in 2019 are expected to have a stabilising effect on global growth in 2020. This is accompanied by a (albeit slow) pickup in global trade growth, reflecting a recovery in domestic demand and investment in particular, as well as the fading of some temporary drags in the automotive and ICT sectors. However, several risks still pose a threat to the global economic outlook in 2020. These include another escalation in the US-China trade tensions, a failure to reach a trade deal between the UK and EU, and increasing social unrest and geopolitical tensions.

While business opportunities can be found around the globe, in order to identify markets that stand out we look for countries 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 Brazil, Colombia, Kazakhstan, the United Arab Emirates, Senegal and Vietnam.

### Tentative recovery in Latin America

While Latin America will continue to underperform compared to other regions, growth is nevertheless improving in 2020. As its largest economy, **Brazil** is expecting to see GDP expansion accelerate in 2020. The adoption of a pension reform by the Bolsonaro administration has given a boost to business confidence. Domestic demand is also strengthening as the labour market gradually improves.

Benefitting from the economic recovery and increased consumer purchasing power are the **pharmaceuticals** and **food** sectors. Demand for innovative medicines/specialised drugs will continue to grow, driven by urbanisation and an ageing population, which will provide pharmaceutical businesses with good revenue-generating opportunities. Food is another sector that is likely to benefit from higher domestic demand. With a growing middle class, Brazil's consumers have an increasing demand for higher-value food products. For instance, dairy products consumption will continue to grow, driven by rising disposable incomes, population growth and the increased perception of dairy products as being healthy and nutritious.

In **Colombia**, economic growth will remain robust in 2020. The ambitious infrastructure agenda will continue to sustain public investments, while private investments are supported by Bogota's success in gaining OECD candidate status in 2018, lower corporate tax and interest rates. Household consumption is supported by solid income growth and contained inflation.

Despite the still challenging political situation (e.g. some large-scale protests and national strikes), there are good prospects for **oil & gas** and **infrastructure investment** in 2020. The oil & gas sector will benefit from an extension of pilot projects that will use hydraulic fracturing ('fracking') to extract oil and gas. Increasing offshore activity will reverse declines in Colombia's hydrocarbon sector and generate business opportunities for maritime support services. Energy sector value added is expected to increase 2.8% in 2020. At the same time Colombia's extensive, ongoing infrastructure projects generate strong demand for infrastructure investment. Construction sector value added is expected to increase 3.8% in 2020.

### Kazakhstan: significant improvement in business climate

In Central Asia **Kazakhstan** has a favourable outlook for 2020, with growth remaining above historical average and the tenge currency being relatively stable. Despite a change in leadership in 2019, the political situation remains stable. The business climate has significantly improved. In 2020, Kazakhstan is taking the 25<sup>th</sup> place in the World Bank's ease of doing business ranking, compared to the 36<sup>th</sup> place in 2018.

The government is investing in economic diversification and infrastructure improvement. Prospects are promising for the **pharmaceuticals** sector. Regulatory improvements and healthcare reforms lead to higher market stability and broader access to healthcare services, supporting growth in the industry. Demand is also supported by a robust household consumption forecast in 2020 and 2021.

### Dubai: Expo 2020 attracting tourists and FDI

The **United Arab Emirates (UAE)** is a politically stable country with a relatively diversified economy, and a regional hub (tourism, financial, logistics). Economic policy will continue to aim at reducing the UAE's dependence on the hydrocarbons sector. The UAE aims to move to a knowledge-based economy by 2021, with the contribution of oil to GDP planned to decrease to 20% from 26% currently. The Expo 2020 organized by Dubai and new visa rules will boost tourist arrivals, and large-scale projects will attract additional foreign direct investment (FDI). Despite the diversification efforts, the economy still depends on regional oil trends, and growth is being constrained by the low oil price and OPEC production cuts.

## Emerging markets in the spotlight 2020

Country	GDP growth % 2020	10-year avg. GDP growth	Population (mln)	GDP (USD billion)	Private consumption (% y-o-y)	Real fixed investment (% y-o-y)	Political risk rating
Brazil	2.2	1.3	211.2	1837.4	2.4	4.0	5 positive Moderate
Colombia	3.6	3.5	50.2	316.1	3.4	4.3	4 stable Moderate-low
Kazakhstan	4.2	4.1	18.5	171.0	5.1	5.4	4 negative Moderate-low
Senegal	6.4	4.8	16.3	24.4	6.2	6.2	5 negative Moderate
UAE	2.3	2.8	9.8	404.9	2.9	4.2	2 negative Low
Vietnam	6.6	6.1	96.4	261.6	6.6	8.6	5 negative Moderate

Sources: Atradius, Oxford Economics

A sector that faces good growth prospects is **pharmaceuticals**. The rising preference for high-value medicine, an ageing population and the rollout of mandatory health insurance schemes is increasing demand. The UAE's reputation as a leading medical tourism hub will also help to drive demand for more advanced medicines and health services, therefore offering opportunities for pharma-related companies. The value of the UAE pharma market is expected to grow to more than USD 4.5 billion in 2021 (USD 3.2 billion in 2016).

### Senegal: stable political climate combined with strong institutions

Global trade policy uncertainty has been constraining economic growth in Sub-Saharan Africa, although prospects for 2020 are slightly improving. **Senegal** is a bright spot in the region, with a stable political climate, strong democratic institutions and high GDP growth. The economic expansion is underpinned by investments in infrastructure and increasing industrial and agricultural output. The government has adopted a development plan for the country, the so-called Plan Sénégal Emergent (PSE), which is entering its second phase in 2019-23. The PSE includes structural reforms to support private investment and increase economic diversification.

The sectors that offer good investment opportunities are **oil & gas** and **infrastructure**. Oil and gas production is due to commence as of 2022, giving rise to substantial investment opportunities in the coming two to three years. Phase two of the PSE will focus on improving productivity, rail and rural road construction and the electrification of villages. Additionally, the Senegalese government is planning large investments in energy (wind farms, solar power plants). All this will create important long-term opportunities for exporters (capital goods in particular), but also for providers of transportation, storage and logistics services.

### Vietnam: regional outperformer for exports

Emerging Asia is still showing the highest growth rate among the major regions, although the slowdown in China will have an impact. We see **Vietnam** as one of the bright spots in the region, as it is one of the fastest-growing ASEAN economies and a regional outperformer for exports. GDP growth is expected to remain high in 2020 (up 7%) supported by solid exports and industrial

production. Low labour costs and the existence of special economic zones bolster investment opportunities for foreign companies. Vietnam is also a good low-cost regional alternative to China for export-oriented manufacturing. Its production base has been growing at an accelerated pace since the start of the US-China trade war.

Given the expansion in import and export activities, the **transportation and logistics** sector has a high growth potential. Vietnam's key export products have grown steadily, creating a high frequency of sea transportation. In addition, the booming e-commerce is also driving growth of fast shipping and delivery. Robust economic expansion and low unemployment should drive further wage growth in the country. Especially higher private consumption offers compelling opportunities for businesses. The **retail and consumer goods** sector is likely to be one of the main beneficiaries, with an expected value added retail sector growth of 6.5% in 2020.

High growth in building and real estate investment is likely to help the **construction** sector. This includes tourism real estate, which attracts strong domestic and foreign investment capital. The tourism industry is expected to grow by more than 10% in 2020. FDI into Vietnam rose 6.7% in 2019 as pledges for future FDI disbursements increased 7.2%. Nearly USD 40 billion of these pledges are directed toward the real estate sector. Public construction investment is expected to pick up in 2020 after two weaker years. Construction value added is forecast to increase 6.5% in 2020. After a slowdown in 2019, growth in **agriculture** is expected to pick up again. Demand for pesticides and fertilisers will increase in order to support the higher agricultural production.

### Conclusion

While the world economic outlook may still be marred by geopolitical and trade uncertainty, opportunities for trade in new markets can still be found. Some of the countries listed above may not be the fastest growing markets, but they experience stable or accelerating growth, coupled with favourable business conditions and growth opportunities across several sectors.

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