

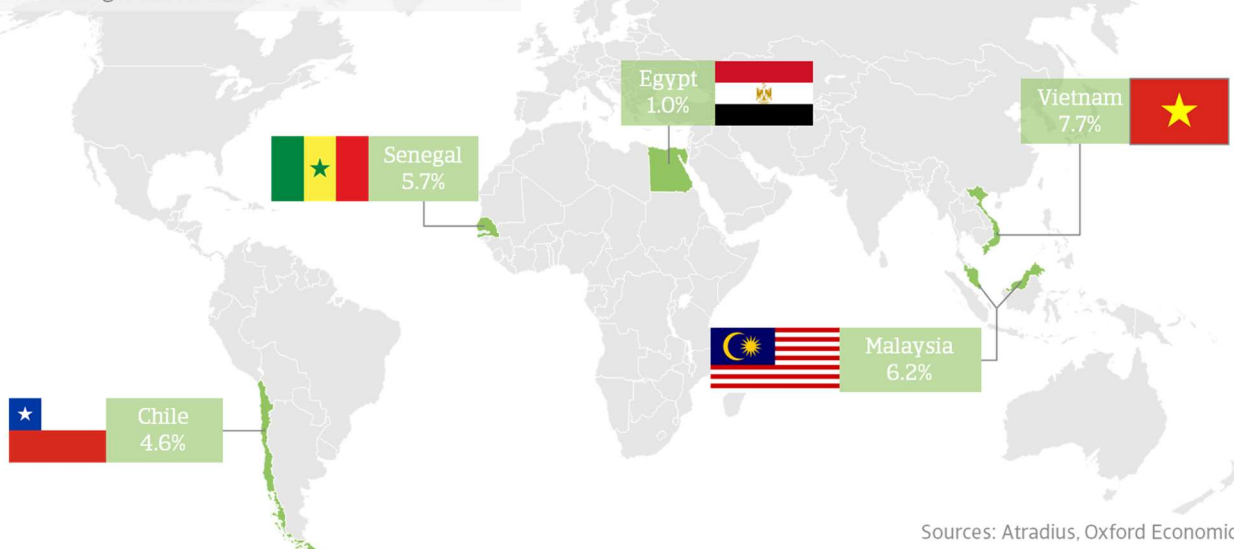
Promising emerging markets for 2021

Atradius Economic Research – February 2021

Summary

- The Covid-19 pandemic went as a shockwave through the global economy, straining growth in emerging markets. In 2021 we are looking at new hope as economies are gradually reopening.
- We identify Chile, Egypt, Senegal, Malaysia and Vietnam as markets that are well positioned to recover from Covid-19 and that have relatively stable political conditions.
- A rebound of global trade is providing opportunities for investors and exporters, especially in these markets' export-oriented trade sectors. Furthermore, in many of these markets, there is a growing middle class, generating opportunities in consumer-oriented sectors.

Promising emerging markets for 2021 2021 GDP growth forecasts



Sources: Atradius, Oxford Economics

Bright spots in a world economy that only just begins to recover from Covid-19

Last year our main risk for the world economy was a possible escalation of the trade war between the United States and China. However, at the start of 2020, it became clear that a risk of an entire different nature was coming to the forefront. A novel coronavirus, later labelled Covid-19, that first emerged in the Chinese city of Wuhan, turned into a pandemic and plunged the world economy into a deep recession. All major emerging market regions experienced a sharp decline in GDP growth, and the situation for many of them is still precarious, as infections continue to spread, and healthcare systems are burdened. At the start of 2021, we are nevertheless looking at renewed hope. A number of emerging markets managed to keep the virus well under control since the first outbreak by rapidly expanding their testing and treatment capacity, and by implementing local lockdowns if necessary. Moreover, several vaccines are in the final stages of approval, and others are already being distributed, also gradually in emerging economies. With economies slowly reopening, pent up demand and a recovery in exports will stimulate GDP growth in 2021.

With the economic outlook improving, there are opportunities to be found. We identify markets that have relatively strong prospects. Promising markets are identified based on three criteria: (1) the pace of GDP recovery in the wake of the Covid-19 crisis, (2) a relatively low number of Covid-19 cases (per 100,000 inhabitants), and (3) stable political and institutional conditions. We do acknowledge that for some countries there may be an underreporting of Covid-19 cases, as testing capabilities differ per country. Therefore, we attach a higher weight to the other two factors in the selection of countries.

Based on these broad criteria alongside our market experience, we have identified **Chile, Egypt, Senegal, Malaysia** and **Vietnam** as the most promising markets.

Chile: diversified economy that proved resilient against Covid-19

Of all emerging market regions, Latin America has been most affected by the Covid-19 pandemic, both in terms of infection cases and death rates. The recovery will be partial and uneven, depending on fiscal space governments have to support their economies, how effectively vaccines can be rolled out, and how dependent a country is on tourism. **Chile** has an attractive business environment, underpinned by sound institutions, low corruption and effective macroeconomic policies. Although the economy was hit by the pandemic, it proved to be resilient against the Covid-19 shock and is well placed for a robust recovery in the coming years. Its economy is relatively diversified, with a share of remotely workable occupations that is higher than in most countries in the region. The recovery started in retail sales and manufacturing in Q3 of 2020, while tourism and hospitality continue to be weak. Export revenues benefitted from a recovery in the copper price,

Chile's main export product. Vaccine rollout has begun and is expected to be one of the fastest in the region.

Most countries in the region have limited fiscal space to support their economies, but Chile has one of the most solid medium-term fiscal positions. Its relatively low government debt allows it to implement a sizeable fiscal stimulus (5% of GDP). The financial system is well insulated from external shocks, with conservative lending standards and well established central bank credibility. Chile suffered from capital outflows in the early stages of the pandemic, but access for both the sovereign and private companies was quickly restored and is supported by a precautionary IMF flexible credit line and two sovereign wealth funds.

The best performing sectors in Chile are **agriculture, packaging** and **pharmaceuticals**. In agriculture and packaging, demand for machinery and industry related technology is increasing, providing exporters in those segments with opportunities. The same accounts for pharmaceuticals exporters, as Chile imports most of the related items.

Egypt: ambitions to become a Mediterranean gas hub

We consider **Egypt** to be a promising market due to its stabilizing political landscape, progress on reforms and outperformance of regional peers in GDP growth. The country has displayed a strong growth trajectory in recent years, mainly due to a macroeconomic stabilization programme that was largely successful. Egypt has an IMF programme and managed to improve public finances and replenish its international reserves. It endured several pandemic-related headwinds in 2020, including a collapse of tourism and a decline of the oil price, affecting the resource sector. This was cushioned by the substantial easing of monetary policy on top of low inflation. From 2022 onwards, GDP growth is likely to converge to its pre-crisis pace. That said, there are still vulnerabilities in Egypt, including dependence on remittances from Gulf states and a reliance on tourism.

In terms of sectors, the outlook for **gas, pharmaceuticals** and **ICT** seems more favourable, and those are the ones that have been attracting the most Foreign Direct Investment. New gas discoveries will expand gas exports over the coming years and support Egypt's ambition of becoming a Mediterranean gas hub. At the same time it is also one of the regional frontrunners in terms of investments in renewable energy projects. In addition, Egypt was the first MENA country to issue a green bond at the end of September 2020.

Emerging markets in the spotlight 2021

Country	GDP growth % 2021	10-year avg. GDP growth	Population (mln)	GDP (USD billion)	Private consumption (% y-o-y)	Real fixed investment (% y-o-y)	Political risk rating
Chile	4.6	3.4	19.1	251.9	5.9	9.4	3 stable Moderate-low
Egypt	1.0	3.9	102.3	368.1	1.6	18.6	6 stable Moderate-high
Senegal	5.7	5.1	16.7	24.5	8.9	11.5	5 negative Moderate
Malaysia	6.2	5.3	32.4	340.9	6.6	13.5	3 negative Moderate-low
Vietnam	7.7	6.5	97.3	341.0	7.2	11.9	5 negative Moderate

Sources: Atradius, Oxford Economics

The government is focused on moving towards a digital economy and accelerating the country's digital transformation, which offers opportunities for ICT companies. Besides the need to combat the coronavirus pandemic, demand for **pharmaceuticals** will be driven by a growing population, leading to higher health care spending. The **construction** sector will benefit from several infrastructural projects alongside the completion of the new capital city.

Senegal: stable political climate combined with strong institutions

Africa was one of the latest continents to experience reports of Covid-19, and many feared the worst. There were significant concerns that some of the least developed countries with weak health care systems would not be able to contain the virus. **Senegal** is doing comparatively well. It reacted to the pandemic by implementing a three-month state of emergency, declared by the president Macky Sall. This state of emergency was lifted at end-June, owing to the economic fallout from the lockdown and large-scale protests in Dakar. A second wave of the pandemic has been underway since November 2020, though the absolute number of cases remains low. Senegal benefits from a stable political climate, relatively strong democratic institutions and high GDP growth.

Policies will focus on addressing the fallout from the pandemic while sustaining a broadly pro-business agenda. The country has developed a national response plan to tackle the fallout from the pandemic, costing about 7% of GDP. Growth in the coming years will be driven by construction of hydrocarbons projects and by new exploration and expansion in the minerals sector, notably gold. Growth will be supported further by major oil and gas fields that are expected to come online in 2023-25, though there may be delays as a result of the pandemic. The government will also continue to drive public works to upgrade the country's infrastructure (particularly transport network and power supply). 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 (i.e. wind farms and solar power plants) and the development of the mining sector – gold in particular. All this will create important long-term opportunities for exporters (of capital goods in particular), but also for providers of transportation, storage and logistics services.

Malaysia: attractive business climate and skilled workforce

Emerging Asia was the first region hit by the Covid-19 pandemic, which initially developed in the Chinese city of Wuhan at the end of 2019. While the region entered a recession in 2020, it was short and not as deep as in the rest of the world. The region proved relatively resilient against the pandemic due to strict lockdown measures, large scale testing and perhaps because of a relatively young population. Many countries in the region show robust growth in 2021. We see **Malaysia** as one of the bright spots due to its attractive business climate, quality of infrastructure and skilled workforce. The country is doing relatively well compared to the rest of the region in terms of Covid-19 infection and death rates, and it is well placed for quite solid GDP growth over the coming years. Even though it was in recession in 2020, GDP growth is expected to rebound to 6.2% in 2021. The government has announced a strong fiscal stimulus package for 2021, with measures totalling RM 322.5 billion (EUR 65 billion). This includes boosting spending on social sectors and infrastructure. Given the country's membership of ASEAN, it benefits from strong trade links with neighbouring countries. A relatively skilled workforce is giving the country a strong position in medium-skilled electronic manufacturing. Its competitive position in manufacturing is furthermore bolstered by rising wages in China.

The acceleration of global growth makes 2021 an attractive year for export-oriented sectors, such as the **electronics** sector, with the **agriculture** sector also being fairly resilient. The better performing segment was health care related plastics and rubber manufacturers, seeing 212% year-on-year growth, as the global demand for rubber gloves and packaging continued to increase

Opportunities by sector

Sector	Countries
Agriculture & food	Chile, Malaysia, Vietnam
Transportation & logistics	Vietnam
Chemicals & pharmaceuticals	Chile, Egypt
Construction & infrastructure	Egypt, Senegal, Malaysia, Vietnam
Electronics & ICT	Egypt, Malaysia
Retail & consumer goods	Vietnam
Textiles	Vietnam
Paper & packaging	Chile

Source: Atradius

during the pandemic. **Infrastructure** is another sector that provides opportunities. While a number of infrastructure projects were postponed or scaled back following a review of all major infrastructure projects in 2018-19, planned medium-term development expenditure and FDI inflows are still likely to result in higher investment in the long term.

Vietnam: regional outperformer for exports

Vietnam proved to be very resilient to the Covid-19 pandemic, as infection cases and death rates have remained low. The national lockdown was lifted in April, and Vietnam is working with local isolation measures in case there is a virus outbreak. The government introduced a fiscal support package valued at VND 291.7 trillion (3.6% of GDP). There is also space for monetary stimulus, but as economic activity is picking up relatively fast, this option has not been used yet. As one of just a few countries, Vietnam managed to avoid recession in 2020, and GDP growth is forecast to accelerate to 7.7% in 2021. It has been one of the bright spots in the region for a while, being one of the fastest growing ASEAN economies and a regional outperformer for exports. Vietnam is an attractive destination for companies that want to shift low-skilled manufacturing out of China. Besides low wage costs, the country

benefits from its participation in several trade agreements (including recent EU-Vietnam and UK-Vietnam trade agreements) and policies favouring incoming foreign direct investment. The ease of doing business, for which Vietnam traditionally was ranking relatively poorly, is improving.

After a difficult 2020, the **transportation and logistics** sector has strong growth potential again in 2021 as global demand is picking up. **Textiles** is set to benefit from stronger global demand and from recently closed free trade agreements with the EU and UK. Robust economic expansion and low unemployment bolster wage growth in the medium-term. Higher private consumption offers especially 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 8.8% in 2021.

High growth in building and real estate investment is likely to help the **construction** sector. There may be a setback in tourism real estate, which attracted strong domestic and foreign investment capital in previous years, but residential construction will continue to perform well. Construction value added is forecast to increase 6.7% in 2021. After growth dipped in 2020, value added growth for **agriculture** is also expected to pick up again in 2021. Demand for pesticides and fertilisers will increase in order to support the higher agricultural production.

Conclusion

After the Covid-19-induced global recession in 2020, 2021 brings hope that the world economy will gradually emerge from the pandemic. Opportunities for trade arise in several emerging markets. The countries listed above are positioned to emerge from the pandemic with good growth prospects. Their economies are also known for their favourable business conditions and growth opportunities across several sectors.

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