EULER HERMES
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#SustainGrowth

DISCOVERING OPPORTUNITY IN UNCERTAINTY

BEGIN

SECTION 1:
THE RISE OF GLOBAL INSTABILITY

2019 has been a year of market volatility, fuelled by the negative effects of political uncertainty and diminishing returns on economic policies globally.

We're now entering a prolonged low-growth period, with global trade of goods and services expected to grow by **+1.5%** the lowest rate since 2009. However, while pockets of recession are already visible in sectors like merchandise and manufacturing, a full-fledged recession is no longer expected in 2020.

RISK ON THE RISE

Trade uncertainty is mounting and in this section we will look at the various types of risk currently at play on the global stage.

1 POLITICAL

From the intensifiying U.S.-China trade dispute and Brexit drama to fears of a recession in Germany, protests in Hong Kong, and the Argentinean crisis... Summer 2019 marked historically high levels of uncertainty and volatility.

U.S. TRADE TENSIONS

The U.S.-China situation has escalated and negotiations have become more tense, driving merchandise trade into a recession. There are indications of a pending *Trade Détente* following this summer's escalation, but the average U.S. import tariff is expected to continue to grow through Q4 2019. Closer to home, the U.S.'s trade relations with Mexico and Europe remain unstable.

A significant tariff hike on European car imports could be implemented in November 2019. However, we're still not facing a proper "Trade War" scenario, which would require the U.S. average tariff to reach 12%. The U.S.'s impending election will also factor into the equation, with a Democratic win potentially bringing a de-escalation in trade tensions.

BREXIT

A last-minute extension of Article 50, which would further delay Brexit and avoid a no-deal on October 31, is the most likely outcome. However, the chances of a no-deal remain high, around 40%, and the UK's subdued growth outlook suggests the threat will remain substantial in the coming quarters.

ITALY

Italy's fiscal deficit appears to be under control in recent months, with the political outlook improving and domestic demand starting to re-emerge. However, Italy will face external headwinds just like its neighbours, so overall GDP is expected to see slight growth, +0.4% in 2020 (up from +0.2% in 2019).

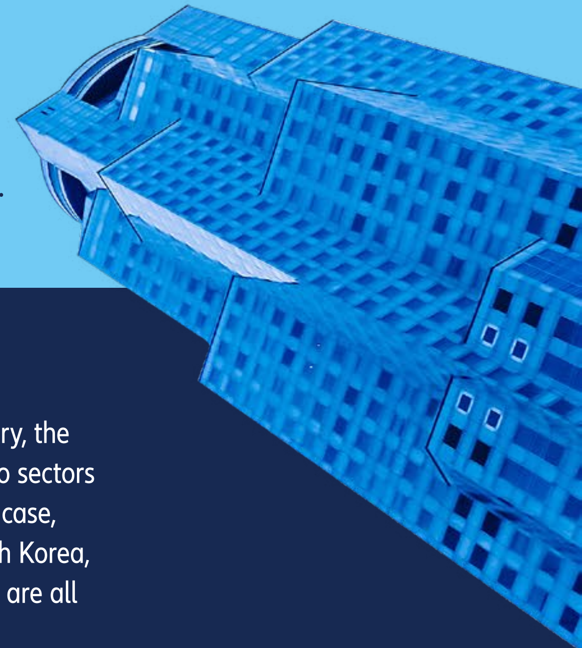
GERMANY

Germany, the world's second-largest exporter, saw its GDP flatline in H1 2019. The country's primary export industry, automotive, is facing unprecedented pressures from Brexit and new EU emissions norms. However, resilient consumers and fiscal tailwinds will stave off a recession in 2020, though mini-growth is expected at best.

2 ECONOMIC

This year has been marked by interventionism, with trade, monetary, and fiscal policies altering the free functioning of markets. This is a signal that the world economy is gradually entering an "illiberal global cycle."

While central banks are in "superdovish" mode, fiscal constraints mean stimuli benefits will be moderate. In other words, we're seeing a diminishing return on this policy mix: it will likely not be able to effectively reboot global growth and avoid prolonged market volatility.



INDUSTRIAL SLOWDOWN

Although we may be able to prevent a global recession, we are seeing discernable industry-specific pockets of recession, namely in Merchandise and Manufacturing.

While trade is a major contributing factor, it is not the only culprit. The car industry, especially in Germany, is being hit particularly hard, having to manage a levelling-off of demand in the U.S., the first demand contraction in a decade in China, a rapid slowdown in the Indian market, the consequences of Brexit, and new emissions norms in Europe.

Following on the foot heels of the car industry, the electronics world is suffering as well; the two sectors that are highly interdependent. The Huawei case, diplomatic discord between Japan and South Korea, and consumer fatigue in a saturated market are all contributing to a sector difficulties.

Finally, intermediate goods are perhaps hit hardest by this industrial recession. Developing at a more rapid pace than other sectors, the stalling in their trade is a concrete illustration that globally integrated businesses are most impacted by the aforementioned sector shocks.

RECESSION FEARS KEPT AT BAY

Although political instability intensified over the summer months and recession fears were reignited, big-ticket issues like a no-deal Brexit, the Italian deficit, and a German recession are expected to be resolved. This, combined with major markets implementing stimulating policy measures, should help avoid a full-fledged global recession.

A resilient consumer could also alleviate the pain. Given record-low levels of unemployment globally and high savings, the consumer will still be a source of strength amid the prolonged low-growth regime and persisting deflationary trade pressures. Services and construction, which have been holding up so far, should remain in growth territory and reduce the pain from the manufacturing recession.

At the same time, the global easing of monetary conditions should not only benefit the consumer, but also help the manufacturing sector recover with an eight-month lag.

Even though some domestic markets are facing challenging conditions, the world of trade is still full of opportunities. A strong export strategy and thorough analysis of local markets specificities can be defining in a successful growth dynamic, especially in an uncertain landscape.

The following sections provide insights into the most promising growth markets and how to design a strategy for success.

KEY FIGURES FOR 2020

+1.5%
total growth in global trade of goods and services, down from +3.6% in 2019

2.4%
global GDP, down from +2.5% in 2019

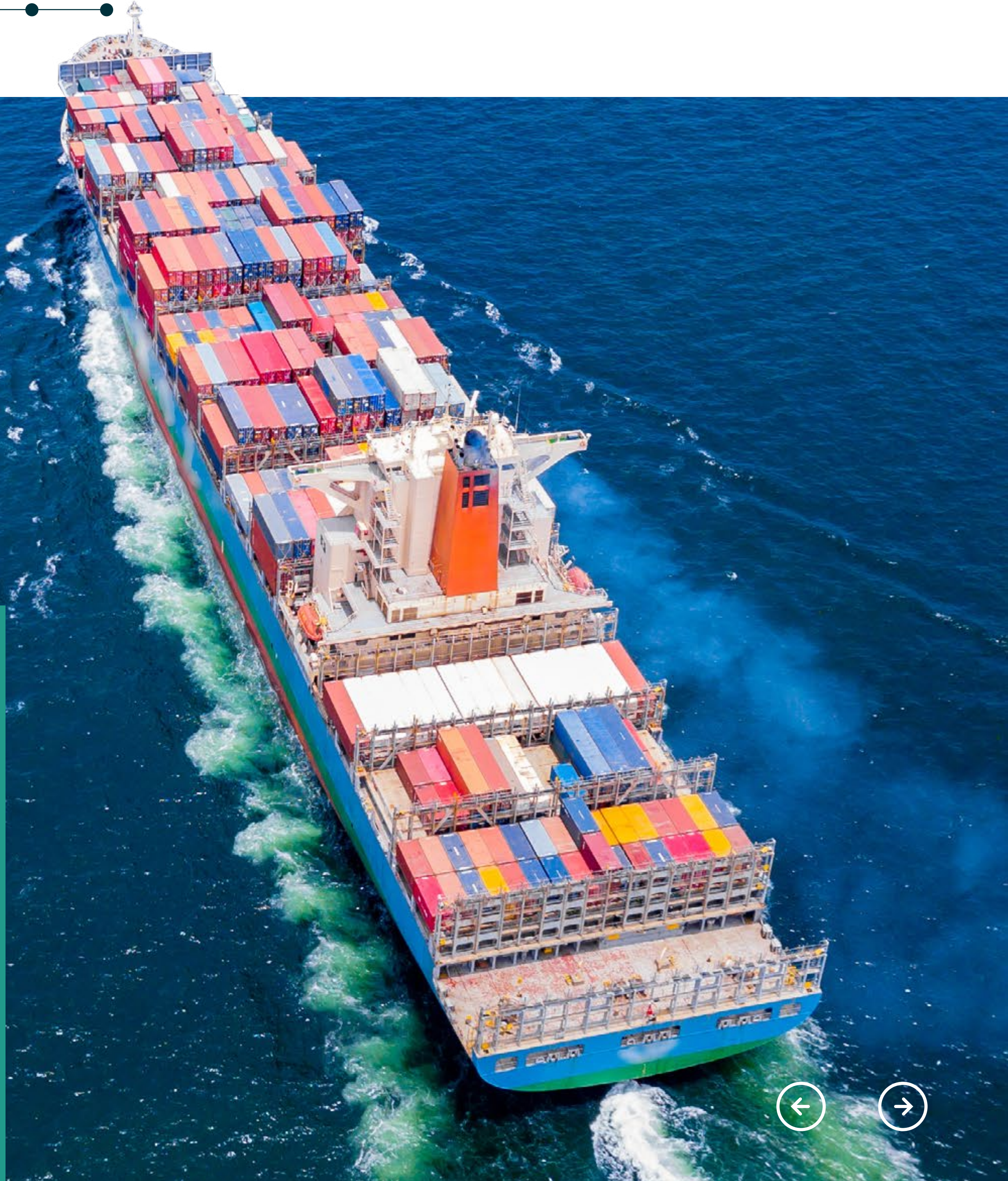
+1.6%
growth in U.S. GDP, down from +2.4% in 2019

+1.0%
growth in Eurozone GDP, down from +1.1% in 2019

+6.1%
growth in China GDP, down from +6.2% in 2019

~9%
average U.S. tariff rate

SECTION 2:
GROWING GLOBALLY



Despite a sweeping wave of instability, export remains a strategic method for development. Beyond improving competitiveness or productivity, it also brings market diversification, thus reducing your dependence on one or a few economies.

However, export ventures should be pursued with caution given the global context. Having realistic expectations for growth, as well as understanding which geographies and sectors hold the most potential are crucial.

GROWTH IN 2020

Latin American
+1.3%

Brazil
+1.8%

EUROPE GDP IN 2020 **+1.0%**

France
+1.2%

Emerging Europe*
+2.3%

*Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Kosovo, Moldova, Latvia, Lituania, North Macedonia, Montenegro, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Turkey and Ukraine.

MARKET SNAPSHOTS

THE AMERICAS

In the U.S., a bi-partisan agreement has been reached regarding the debt ceiling and the probability of a recession is decreasing. We expect to see the benefits of easing of monetary and fiscal policies towards the end of 2020, with GDP set to grow +1.6% in 2020. However, import tariffs continued to increase in 2019 and the 2020 presidential elections will play a big role in future trade negotiations with the U.S. Despite this, both Canada and the U.S. remain strong export markets. In Latin American, limited growth is expected, +1.3 in 2020, up from +0.8% in 2019. Brazil in particular is expected to see slightly higher than average growth for the region, anticipating +1.8% in 2020. Mexico, Argentina, and Colombia remain low-growth, high-risk markets.

EUROPE

Europe should avoid a recession as consumer-related sectors like services and construction drive growth, with rising disposable incomes and low interest rates supporting individual spending. Total GDP growth is expected to be +1.0% in 2020. Despite Germany's lagging growth on the export front, supply-side reforms that would make it a more attractive place to do business could boost growth in the short- and medium-term. France is expected to outperform its European peers and prove a favourable investment landscape, with GDP growth expected at +1.2% in 2020. In the U.K., GDP growth is expected to slow to +0.8%, down from +1.2% in 2019, and Russia continues to see sluggish growth, which is expected to continue through 2020. In Emerging Europe, growth decelerated from +3.1% in 2018 to just +1.7% in 2019, but this should turnaround in 2020 with growth expected at +2.3%.

ASIA-PACIFIC

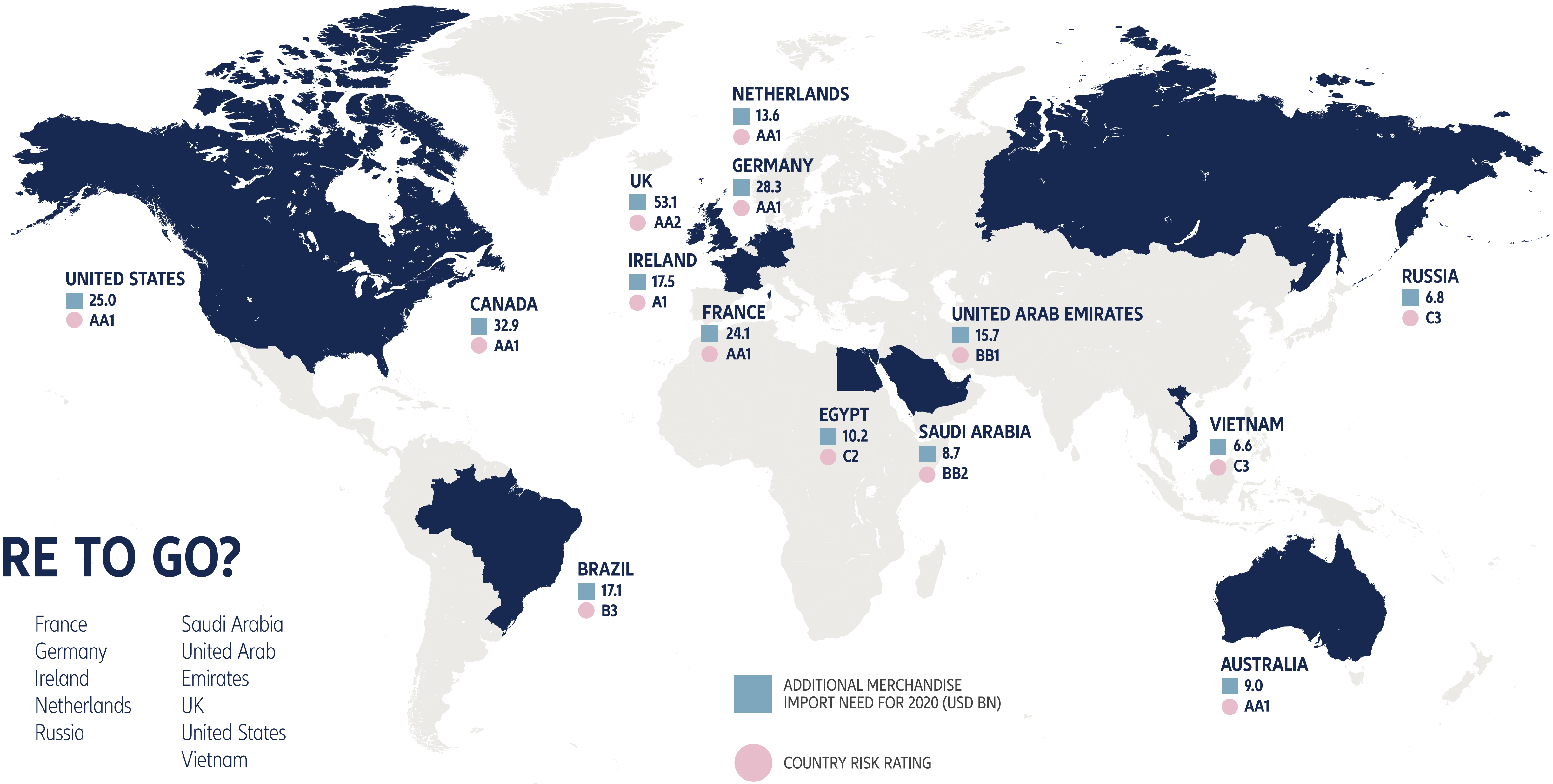
China saw decreases in growth and domestic demand over the course of 2019 and this is expected to continue into 2020. Stimulus efforts are in the works, but will likely take time to show returns. Overall, the Chinese economy is expected to grow +6.1% in 2020, slightly down from +6.2% in 2019. Emerging Markets like Korea, Indonesia, and Singapore experienced borderline recessions in 2019, but expect partial recovery in 2020.

MIDDLE EAST-AFRICA

Decreases to oil output and market prices contributed to a slowdown in Middle East growth to +0.4%, but this is expected to jump to +1.3% in 2020. In Africa, growth will slow to +1.9% in 2019 and 2020, down from +3.2 in 2018. This is largely due to lack of necessary economic reforms, poor crop output due to lack of power, and pockets of debt vulnerability. This is expected to lead to non-payment risk issues, where our insolvency index should increase by +7% in 2019 and close 2020 +38% above the 2015 level.

DESPITE A 2019 DIP, OVERALL GROWTH IS EXPECTED TO STABILIZE IN 2020-21

The evolution of political and economic risks remain to be seen, but resilient consumers and new trade-boosting agreements like the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, the EU-Japan Economic Partnership Agreement, and the potential United States-Mexico-Canada Agreement could tip the tides in a positive direction.



WHERE TO GO?

Australia
Brazil
Canada
Egypt
France
Germany
Ireland
Netherlands
Russia
Saudi Arabia
United Arab Emirates
UK
United States
Vietnam

SECTION 3: HOW TO SUCCEED IN FOREIGN MARKETS

Expanding globally is a proven strategy for driving growth. Diversifying gives you access to new customers, new opportunities for mature products and safeguards your business against domestic economic stagnation. However, international growth also involves notable risk. To enter a foreign market successfully, extensive research and thoughtful planning are prerequisites.

3 ESSENTIAL STEPS FOR ENTERING A FOREIGN MARKET

Here are several key steps to ensure your bases are covered and your international expansion yields maximum results.

STEP 1 OBJECTIVELY SELF-EVALUATE

Before you begin planning for this next step, it's critical to take a hard look at your business to see just how prepared you are.

YOUR FINANCES

It often takes up to three years for an international expansion to be effective. Can your business sustain itself financially during this time?

YOUR LEADERSHIP

Is senior management aligned on this growth strategy? Do you have any expertise gaps to fill before proceeding?

YOUR TEAMS

Do you have strong marketing, sales and business development teams? Will you need to hire and, if yes, are you prepared to do so?

YOUR OFFERING

Will your products or services stand out against the local competition? Are you prepared to pivot to address new customer preferences?

STEP 2 IDENTIFY YOUR TARGET MARKETS

Once you've reflected on the state of your business and decided you are internally prepared to grow abroad, the next step is to explore potential markets. Just as with your business evaluation, objectivity is key here.

LOOK AT BOTH OPPORTUNITIES AND RISKS

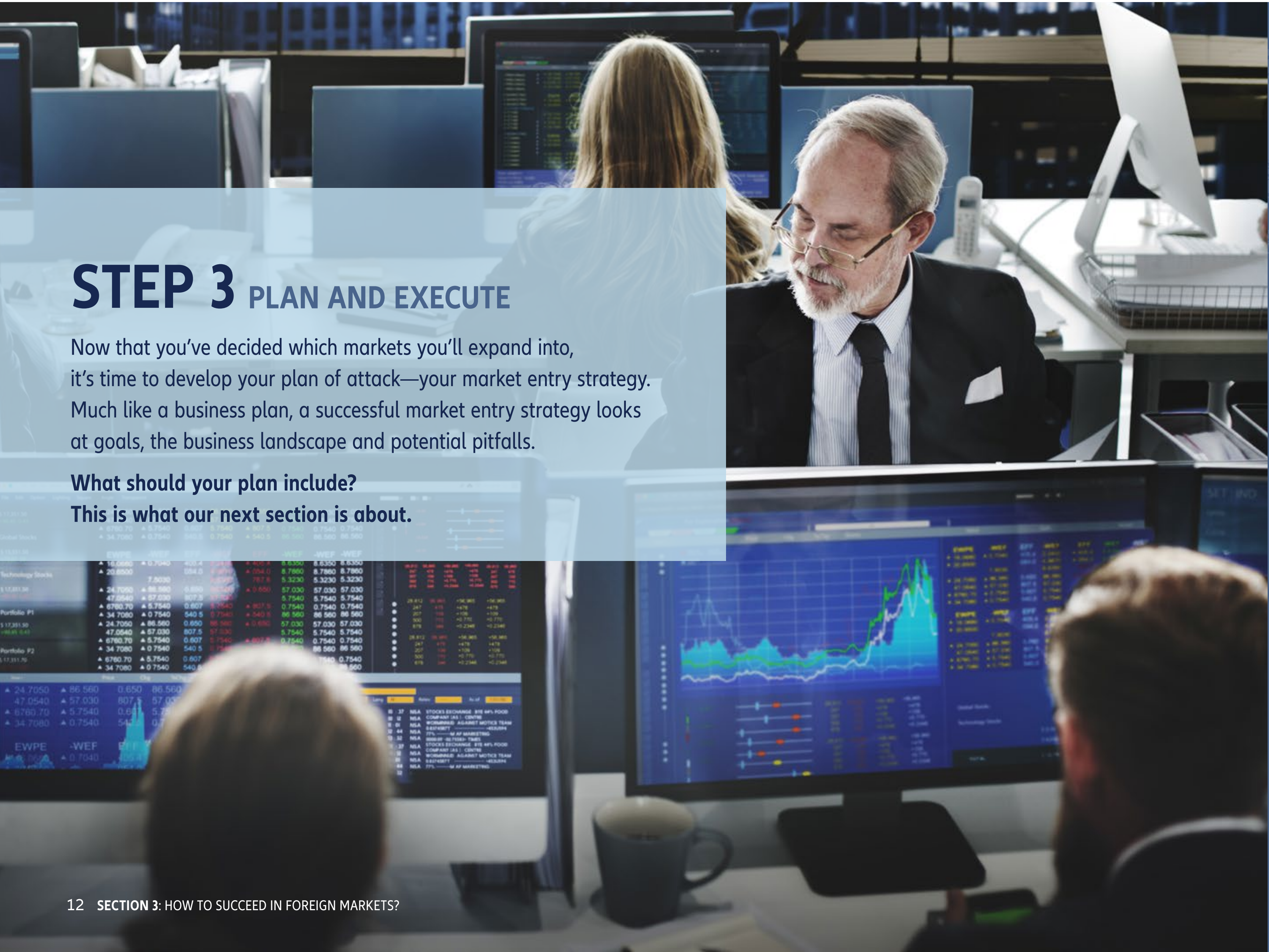
Is the given market welcoming to foreign businesses? What is the regulatory environment like and what red tape should be accounted for? Is there a clear demand for your offering and is the price point feasible for potential customers in this market?

CONSIDER LOCAL CULTURE AND CUSTOMS

From product packaging to marketing tactics, what sells in one market does not necessarily translate to another. Local norms could also affect your business relationships. What are local cultural faux pas?

GET SOME FACE TIME

Before making final decisions on target markets, consider exploring the terrain for yourself. Meeting key contacts in-person is the best way to fully grasp the local competition, regulations and distribution channels. Is there an in-country trade show or industry event you could attend?



STEP 3 PLAN AND EXECUTE

Now that you've decided which markets you'll expand into, it's time to develop your plan of attack—your market entry strategy. Much like a business plan, a successful market entry strategy looks at goals, the business landscape and potential pitfalls.

What should your plan include? This is what our next section is about.

FINANCING TIP

When it comes to funding international growth plans, it's often smarter to borrow than strain your cash flow. Building a strong expansion plan will position you to approach lenders with confidence.

HOW TO CREATE A SUCCESSFUL EXPORT PLAN

An export plan is a market-specific document that helps businesses prepare to enter a foreign market. When done well, they can make the difference between increased sales and genuine growth.

An export plan can forecast anywhere from 3-10 years into the future, but it should be considered a living document that evolves as you gain more insight and experience, not a one-time exercise.

WHAT SHOULD BE INCLUDED IN A STRONG EXPORT PLAN?

1 EXECUTIVE SUMMARY

Overview of your company's export plan: why you're exporting, what products and/or services you're exporting, where you're exporting, your local competition, logistics and distribution, financials.

2 EXPORT POLICY COMMITMENT STATEMENT

A concise 'mission statement' regarding your company's policy on and commitment to exporting.

3 COMPANY DETAILS

Background on your company, including a brief history, noteworthy achievements, products selected for export and why, operations and organisational structure.

4 MARKETING

Detailed target customers, product selection and pricing, distribution methods, brand awareness and advertising strategies, terms and conditions of sale, pricing, cultural specificities.

5 TARGET MARKET ANALYSIS

First- and second-tier targets, and why they were chosen; positioning in target market(s), competitor analysis.

6 BUDGETS AND FORECASTS

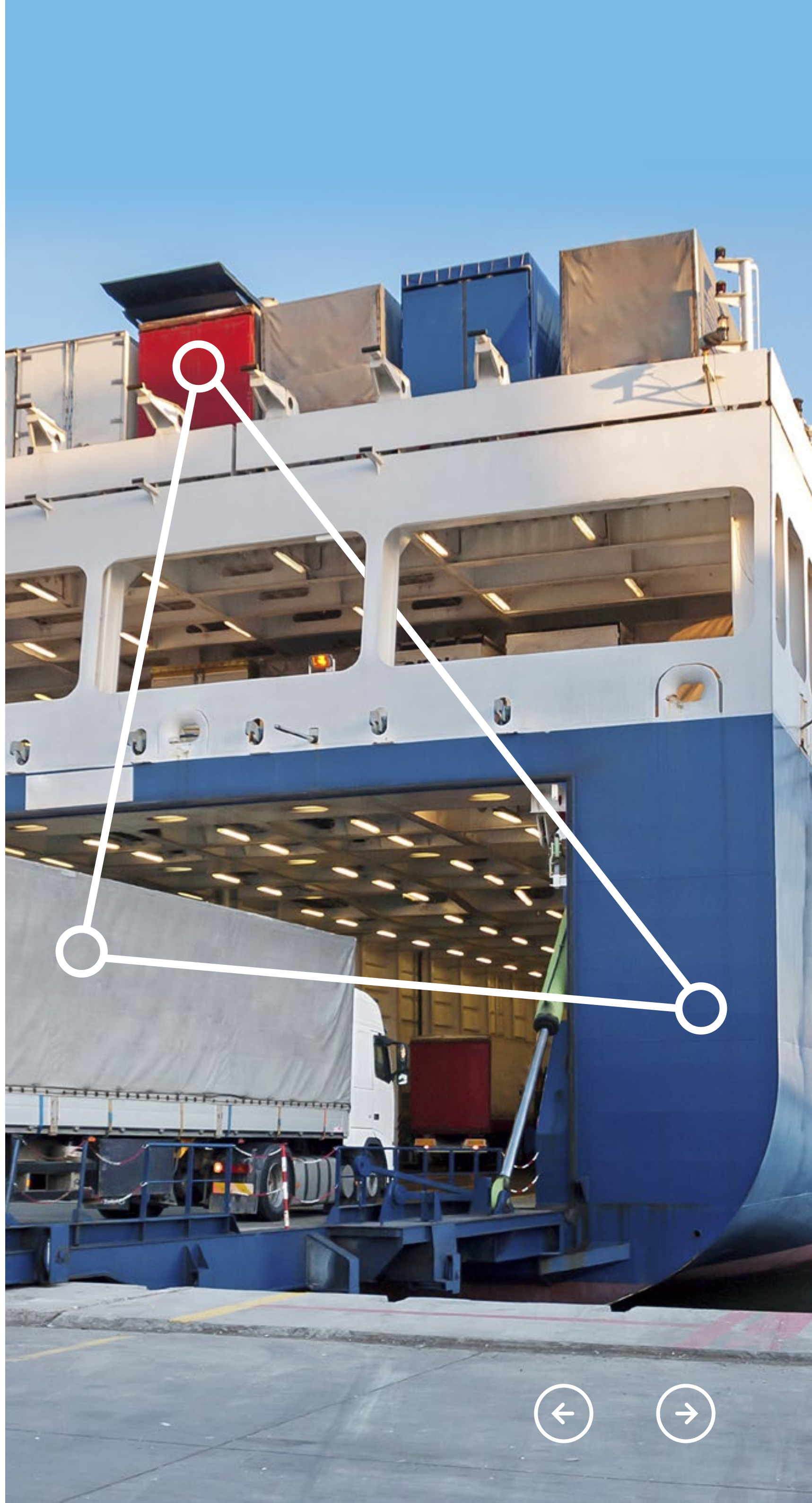
Balance sheet, export budget forecast, sales goals (profit and loss forecast), cash-flow analysis, operating budget statement.

7 PRODUCTION

Competitive advantages of our products and/or services in target market(s), adaptations to products and/or services (packaging, labelling, regulatory considerations), production capacity.

8 SCHEDULE

An actionable calendar for achieving aforementioned goals, milestones, follow-up and review.



6 WAYS TO GROW YOUR BUSINESS USING CREDIT INSURANCE

Taking out credit insurance is one of the prime ways to limit risk. It allows you to effectively evaluate prospective international customers and protect your company against non-payment from existing ones. And should anything go wrong, you can relax knowing that you are protected and your finances supported during this expansion into a new market.

1 INCREASE MARKET SHARE

Offer better terms and raise credit limits to grow sales and enhance customer relationships.

2 BOOST MARKET PENETRATION

Evaluate credit risks, prequalify customers and have added protection to confidently add new buyers.

3 EXPAND TO FOREIGN MARKETS

Make strategic credit decisions and offer competitive terms overseas, eliminating cash in advance or letters of credit.

4 GROW WITH A KEY CUSTOMER

Aggressively grow sales with a key customer without the worry of concentration risk.

5 OBTAIN FINANCING

Transform your accounts receivables into secured collateral. Guaranteed payment is a positive asset in the eyes of lenders, which in turn can translate working capital at more favourable rate.

6 SUPPORT ACQUISITIONS

Create coherent credit processes, take control of receivables in a secure way and understand the creditworthiness of the new customer portfolio.

SOURCES AND DISCLAIMER

SOURCES

Euler Hermes Report - Political worries, flatlining growth and an illiberal cycle, September 2019

International Monetary Fund - World Economic Outlook, July 2019

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