A D&B Special Report
August 2011

Decide with Confidence

Trading Globally: Opportunities & Risks

Global Trade Flows (Exports and Imports)—Insights

- Global trade flows grew strongly in Q1 2011, the fifth consecutive quarter of growth.
- Emerging markets were the main driver of the recovery in global trade in 2010, whereas trade growth was slower in Europe and North America.
- A potential economic slowdown in H2 2011 is liable to soften global export and import growth in coming quarters.
- Exporters need to monitor country-specific political, economic and commercial risks.
- ***High trade opportunities, low business uncertainty:*** Brazil, China, India, Singapore, South Africa.
- ***Low trade opportunities, high business uncertainty:*** Afghanistan, Hungary, Iceland, Ireland, Yemen.

Recent Developments: Global Trade Flows Remain Strong

IMPACT: global exports and imports grew healthily in Q1 2011

Global exports and imports continued to grow healthily in Q1 2011, marking the fifth consecutive quarterly expansion in year-on-year (y/y) terms: global trade flows (in US dollar terms) were up by 21.9% y/y, up from the 17.1% recorded in Q4 2010. In 2010 trade recovered steadily from the negative impact of the global recession between Q4 2008 and Q4 2009 (when exports and imports contracted in y/y terms). That said, in Q1 2011 global trade flows had yet to recover to their pre-crisis levels; they were equivalent to USD4,338bn, below the peak of USD4,494bn recorded in Q3 2008.

IMPACT: emerging markets are the main drivers of expansion

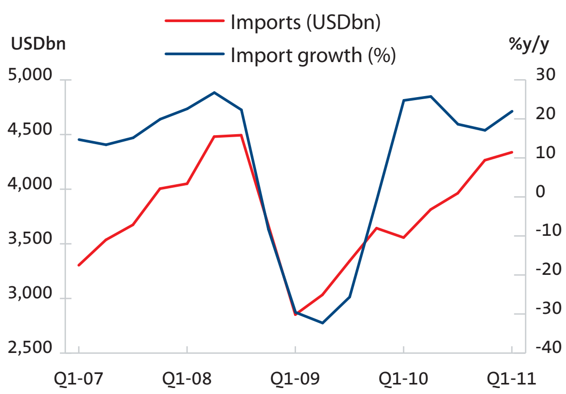
Emerging markets (with 76.5% of new imports) and, in particular, Asia-Pacific economies (32.6% of new imports) were the main drivers of this rebound in 2010. In contrast, advanced economies contributed only 23.5% of new imports, equivalent to import growth of 13.7% (compared with 25.5% in emerging markets). This was unsurprising, as developed countries account only for 34.2% of total imports, whereas imports to emerging economies are equivalent to 65.8%; in particular, according to the regional breakdown, Asia-Pacific economies represent 24.5% of the total, followed by Europe with 21.0% and the former Soviet Union countries with 15.7%.

Outlook: Global Trade Growth to Moderate on 2011 Economic Slowdown

IMPACT: the rising risk of an economic slowdown in H2 2011 threatens to reduce the pace of global trade growth

In the remainder of 2011 the risk of a slowdown in economic growth is liable to soften the pace of recovery in global exports and imports. Leading indicators such as the JPMorgan Global All-Industry Output Index, which in June fell to its lowest level since August 2009, suggest that growth will be weak in H2, with risks on the downside. These risks include the debt crises in Europe and the US; a renewed oil price shock; rising interest rates; and possible policy errors as governments balance inflationary pressures against promoting recovery. In particular, the euro debt crisis threatens to lead to a Europe-wide financial crisis that could derail the economic recovery and trigger a devastating contagion to EU banks, with knock-on effects on trade finance availability and growth prospects. In this context, we are wary that an economic slowdown or a negative shock could threaten the rebound in global trading in coming quarters.

Global Trade



Source: IMF, Direction of Trade

Global Trade by Region (2010)

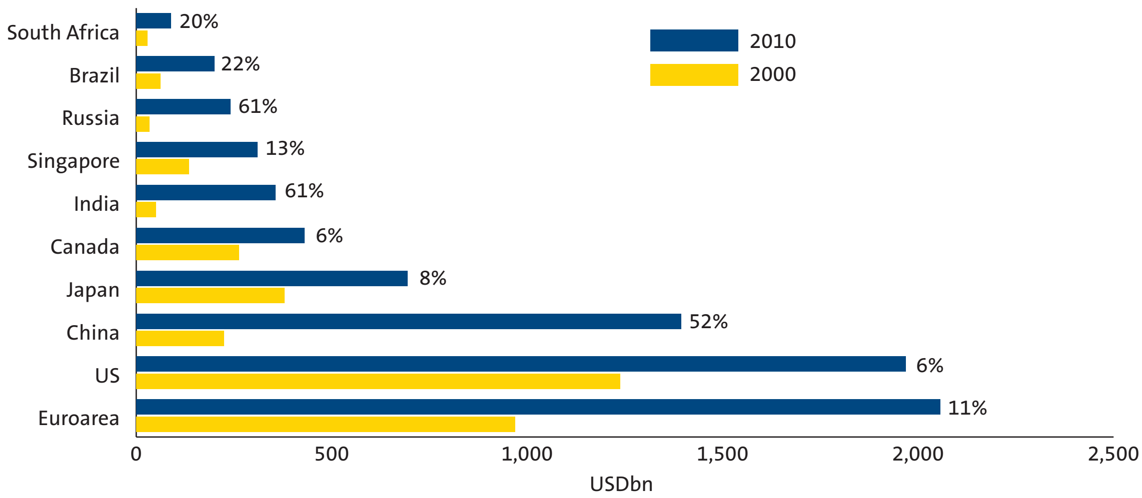
	Proportion of new imports	Share of global imports	Import growth (%)	Imports in USDbn
World	100.0	100.0	21.2	15,595
Advanced Economies	23.5	34.2	13.7	5,326
North America	4.9	6.2	15.9	968.9
Europe	11.4	21.0	10.5	3,279
Other Advanced Economies	7.3	6.9	22.5	1,079
Emerging Economies	76.5	65.8	25.5	10,269
Asia-Pacific	32.6	24.5	30.4	3,823
Central and Eastern Europe	4.8	4.3	24.1	676.0
Latin America	12.0	8.1	35.3	1,256
Former Soviet Union Countries	16.8	15.7	22.9	2,451
Other Emerging Economies	10.3	13.2	15.7	2,064

Global Trade Flows, 2000 to 2010

Imports

In 2010, euro area countries and the US continued to be the main importers by size (in US dollar terms), despite fast growth rates recorded in China, India and other emerging markets over the past ten years. Between 2000 to 2010 the euro area went from being the second-biggest market to the largest importer in the world (with USD2,056bn of total imports), followed by the US with USD1,968bn (the US had been the most important import market in the world in 2000). Another mature economy, Japan, which was the third-biggest importer in 2000, fell to fourth position in 2010. China, with imports worth USD1,393bn, overtook both Japan and Canada (in 2010, Canada fell to fifth position, with USD430bn).

Selected Importers by Size (USDbn) and Average Annual Growth (%)

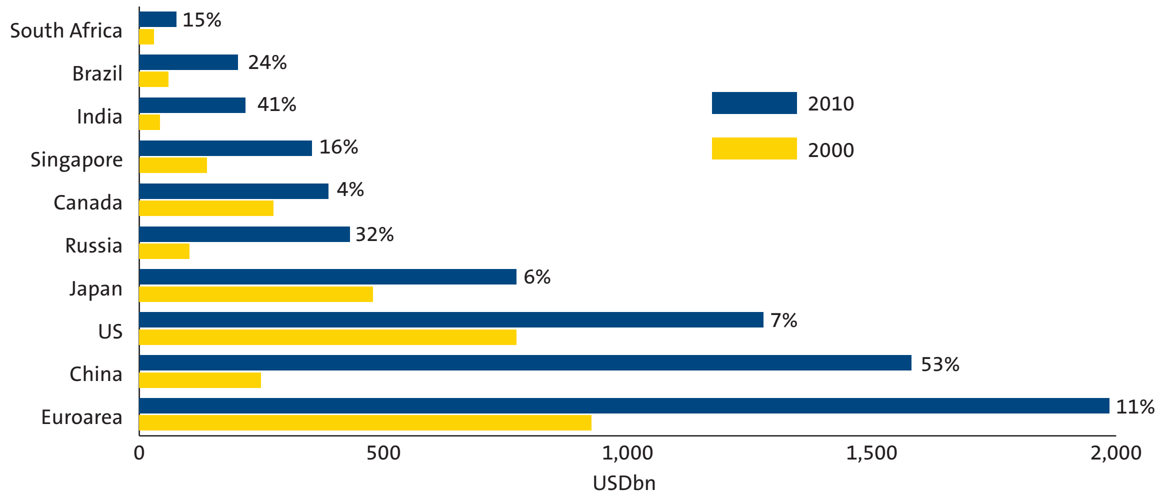


These developments were the result of China's exceptional economic performance: between 2000 and 2010 China's imports grew by 52% per year on average, compared with more modest rates of 11% in the euro area, 8% in Japan and 6% in both Canada and the US. Likewise, in the same period other emerging markets also recorded extremely high import growth rates: both India and Russia's imports rose by an average of 61% per year, Brazil's by 22% and South Africa's by 20%, thus expanding considerably their import markets.

Exports

Looking at exports by size (in US dollar terms) also shows the growing role played by emerging economies in this respect. In 2010 the euro area was still the biggest exporter in the world, with USD1,985bn, followed by China with USD1,580bn and the US in third position with USD1,277bn; this is a significant change from 2000, when the US was still the second-biggest exporter in the world and China was only fifth, behind Japan and Canada, which are now fourth and sixth (with USD771bn and USD387bn, respectively).

Selected Exporters by Size (USDbn) and Average Annual Growth (%)



Indeed, from 2000 to 2010 China's exports grew at a much higher pace (53% annual average) than in the euro area (11%), the US (7%), Japan (6%) and Canada (4%). A similar performance was also recorded in other emerging economies, such as India, Russia (which is now the fifth-largest major exporter in the world, owing mostly to its considerable hydrocarbon exports), Brazil and South Africa.

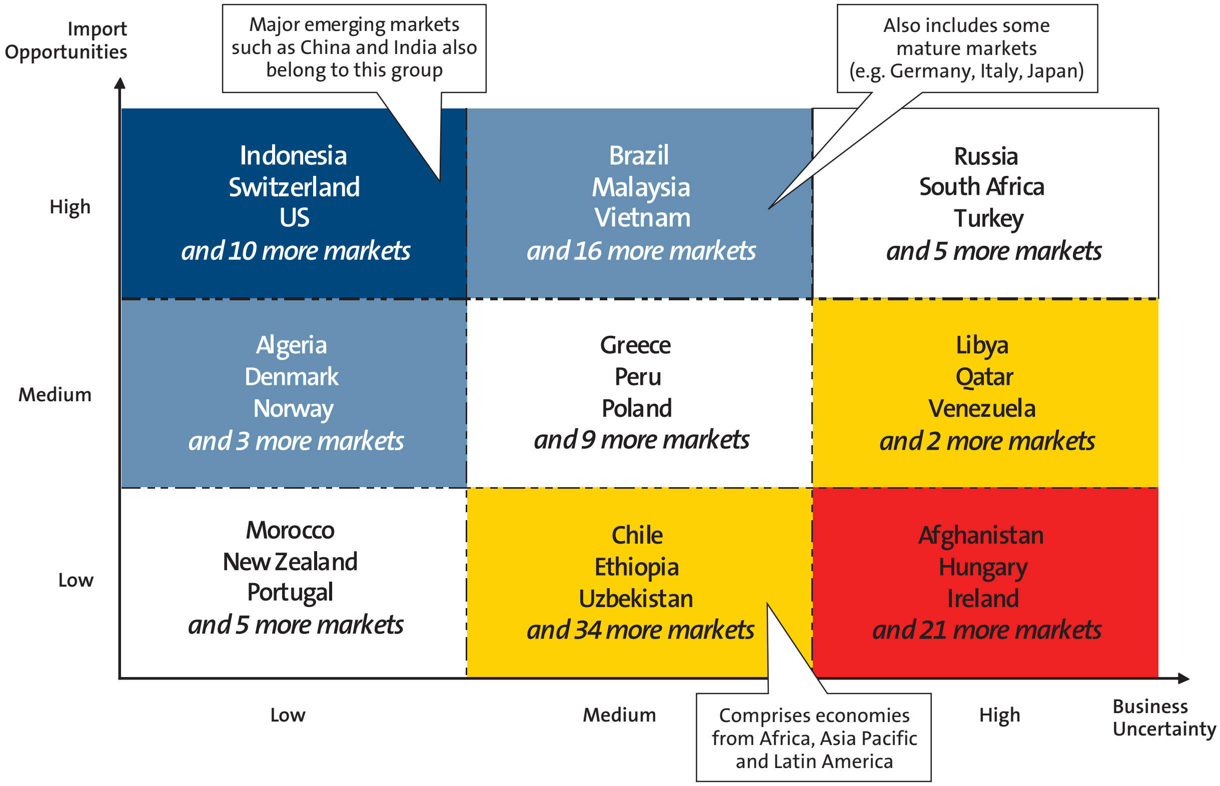
Trading Globally: Opportunities and Risks

Over the next two years the continued expansion in global trade flows will offer increasing opportunities to exporters, particularly in emerging markets. That said, country-specific political, economic and commercial risks will continue to warrant caution and careful monitoring. A group of 13 countries (in the top-left cell of the matrix on page 5) will guarantee the best import opportunities (in US dollar terms) and lowest degree of business uncertainty for foreign companies. These countries include: major developed countries (such as France and the US) that have benefited from relatively high growth rates and low exchange rate volatility in the past and are likely to grow steadily in the next two years; fast-growing emerging markets such as China, India and Indonesia, with high import potential and a comparatively solid macroeconomic environment; and smaller but stable and expanding economies such as Israel and Switzerland.

A second set of six countries consists of economies featuring medium trade opportunities and low business uncertainty (the centre-left cell). These countries comprise: small, mature economies (such as Denmark and Norway) that enjoy solid macroeconomic and commercial fundamentals; and minor and relatively stable developing countries, such as Algeria. Compared with these economies, Germany, Italy, Singapore, Thailand and Vietnam will offer better trade opportunities to foreign exporters, but also a higher degree of business uncertainty; these markets belong to a group of 19 countries (top-centre cell in the matrix), mostly established medium-sized European economies and large, fast-growing markets from the Asia-Pacific region.

In sharp contrast with these groups, a set of 24 high-risk and low-opportunity countries (at the bottom-right of the matrix) consists of mostly frontier markets and EU economies hard-hit by the latest global downturn. These include small, politically unstable countries (e.g. Afghanistan, Yemen and Zimbabwe) and European economies still reeling from the effects of the 2008-09 financial crisis (such as Hungary, Iceland and Ireland). A small group of five equally risky but higher-growth countries (centre-right cell) includes politically unstable and economically volatile oil producers, such as Libya, Qatar and Venezuela, whereas a bigger cluster of 37 economies (bottom-centre cell) offers a medium risk business environment with low opportunities; this latter group contains a wide range of small emerging markets, mostly from the Africa, Latin America and Asia-Pacific regions.

D&B Import Opportunities and Business Uncertainty Index



The D&B Import Opportunities and Business Uncertainty Index shows trade opportunities (vertical axis) and the degree of business uncertainty (horizontal axis) for foreign companies in 132 countries. Import Opportunities are measured by the forecast size of imports (in US dollar terms) for each country over the next two years; and Business Uncertainty is an indicator derived from past exchange rates (40% of the indicator's weighting), real GDP growth volatility (40%) and D&B's country risk ratings (20%).

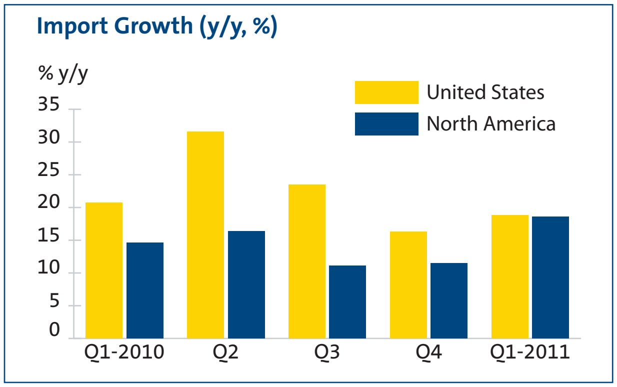
United States

Opportunities:

- Despite the recent economic slowdown, demand for imports is unlikely to collapse.
- In H2 manufacturers (particularly in the automotive sector) should see fewer supply chain disruptions than in H1 (which was affected by the earthquake in Japan).
- According to the World Bank's latest Doing Business report, it takes substantially less time to trade with the US than with the OECD on average, although costs and documentation requirements are similar.

Risks:

- Demand for consumer goods remains under pressure amid a weak labour market and slow income growth; this will weigh on key sectors such as manufacturing, construction, transportation and retail.
- The severe depression of the housing market reduces demand from the construction sector.
- The weak US dollar and high input prices (e.g. energy) raise costs for US importers and threaten to undermine demand for imports.
- The costs of fragile public finances ultimately threaten to be passed on to households and companies, thus reducing import demand.



United States	
Import Opportunities	High
Business Uncertainty	Low

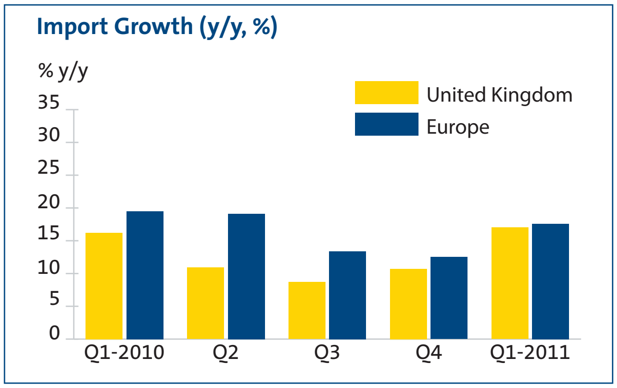
United Kingdom

Opportunities:

- The UK's ranking in the category 'trading across borders' in the World Bank's Doing Business report for 2011 improved to 15 (from 18 in the 2010 report), with documentation requirements, time involved and costs below the OECD average.
- Lower corporate taxation and changes in the controlled foreign company rules will encourage private sector investment spending.
- Prospects in the commercial construction sector are improving as investment spending expands.

Risks:

- Current UK fiscal policy aims at boosting exports and investment rather than consumer and public demand, thus decreasing import demand from the public and consumer sectors.
- The labour market outlook is bleak given looming cuts in public sector jobs: high unemployment will continue to suppress consumer demand.
- Demand in the residential construction sector remains weak amid a fragile housing market.
- The weak pound sterling and high input prices (e.g. energy) raise costs for UK importers and threaten to undermine demand for imports.



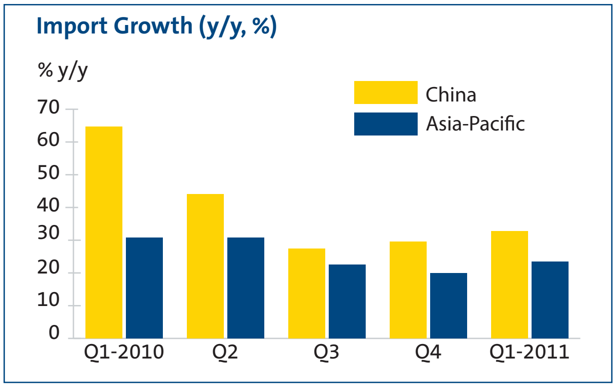
United Kingdom	
Import Opportunities	High
Business Uncertainty	Low

For more information about trade terms, please contact D&B Country Risk Services.

China

Opportunities:

- China's inland provinces continue to undergo rapid urbanisation, led by resource-intensive investment;
- Middle-class segments of the population are growing, creating new sources of disposable income and bringing novel, expanded consumption patterns;
- The working age population is due to reach an historic maximum in the mid-2010s;
- Government revenues have grown rapidly and fiscal pressures are largely absent.



China	
Import Opportunities	High
Business Uncertainty	Low

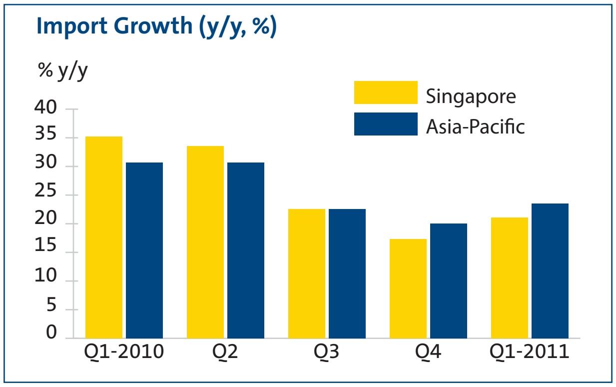
Risks:

- CPI inflation has returned in 2011 for both cyclical and structural factors, with food and housing prices prominent factors;
- Harvests have posted increases for the past several years but eventually will meet structural barriers, increasing China's dependence on the world market;
- The price controls the government uses to ensure social stability can lead to supply shortages;
- China is due to suffer a 30–40 gigawatt electricity deficit in the summer of 2011;
- Water stress could become a negative economic factor in coming years as the South-to-North water transfer megaproject is delayed.

Singapore

Opportunities:

- Singapore's tourism industry continues to grow, thanks to two new integrated casino resorts, with receipts up by 35.7% year on year (y/y) in Q1 2011;
- The city-state's regional hub role is developing into a wide range of advanced service industries;
- The number of petitions by creditors against failing companies fell to 84 in Q1-Q2 2011, from 102 in the same period in 2010, out of 16.3m active companies;
- Singapore's economy recovered powerfully from the 2009 shock with 15% real GDP growth in 2010, and full employment is predicted by 2011.



Singapore	
Import Opportunities	High
Business Uncertainty	Medium

Risks:

- Real GDP growth slowed sharply to just 0.5% in Q2, preliminary data showed, as y/y base effects faded and pharmaceuticals firms reconfigured facilities;
- Electronics production in Q2 was affected by Japan's earthquake-related difficulties since March, and disruptions to supply chains could persist;
- The services sector, including business and financial services sector, has become more vulnerable to global investor sentiment since its expansion;
- The economy has been near full capacity and inflation may persist at higher levels than expected.

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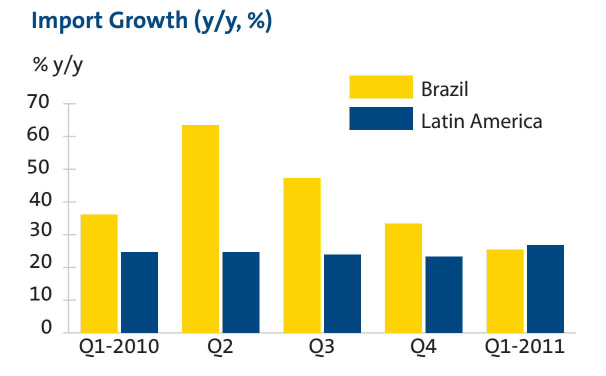
Brazil



Brazil	
Import Opportunities	High
Business Uncertainty	Medium

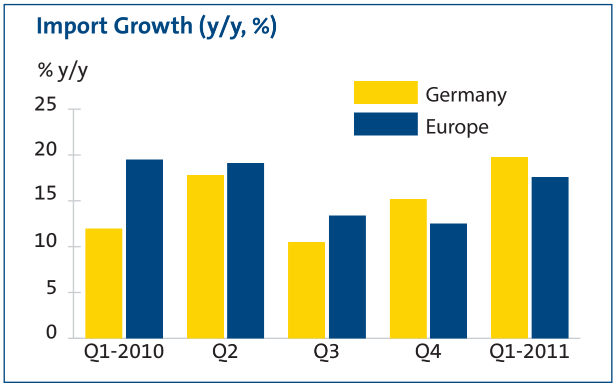
Opportunities:

- Brazil's economy has benefitted from strong demand for its commodity exports and rising levels of foreign capital inflows since 2009;
- The strong real appreciation of the Real over 2011 and into 2012 will support import demand;
- A growing middle class and high levels of domestic liquidity are stimulating demand for consumer goods;
- The development of the offshore oil sector as well as ongoing infrastructure development will stimulate demand for capital goods imports;
- FX reserves will remain robust over 2011-12.

Risks:

- Domestic demand will ease in 2011-12 as a result of tighter fiscal and monetary policy;
- The government has tightened import controls on a number of goods, notably cars, in order to stimulate domestic industry;
- Significant upward pressure on inflation, while boosting short-term import demand, could undermine economic stability;
- There is a risk of currency depreciation in 2012 denting import demand as developed nations tighten monetary policy.

Germany



Germany	
Import Opportunities	High
Business Uncertainty	Medium

Opportunities:

- The broad-based economic recovery benefits from accelerating domestic demand, boosting imports;
- Bank lending conditions continue to improve, reducing the risk of payment delays;
- D&B data show that payments performance remains particularly strong in the pharmaceutical, banking, wholesale/retail and engineering sectors;
- Germany's large export sector remains highly competitive and benefits from its global reach, boosting opportunities for companies with links to the country's export sector.

Risks:

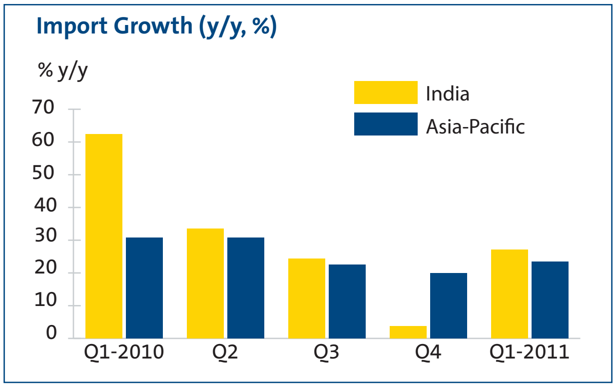
- We are concerned about the implications of the euro-zone sovereign debt crisis for German banks (especially the fragile regional Landesbanken);
- A European banking crisis could seriously undermine German import demand due to the importance of bank lending in supporting Germany's recovery;
- The debt crisis also poses risks to Germany's export sector and its suppliers;
- High input prices (e.g. energy) raise costs for German importers and threaten to undermine demand for imports.

For more information about trade terms, please contact D&B Country Risk Services.

India

Opportunities:

- India is still expected to post real GDP growth of at least 8% in both 2011 and 2012, while keeping average inflation in single digits;
- The minority Congress Party-led coalition raised fuel prices in June despite considerable resistance, showing key medium-term goals are being pursued;
- Agricultural production, a major driver of spending and the economy, rebounded sharply in Q1.



India	
Import Opportunities	High
Business Uncertainty	Low

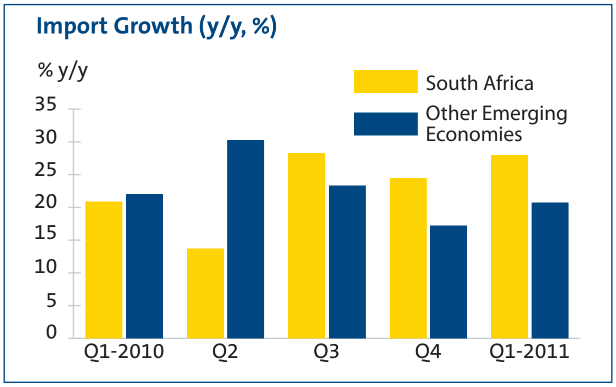
Risks:

- D&B data show that average payment delays by Indian importers to US and European suppliers rose from 64 days in January to 69 days in March;
- Firms face strong inflationary pressures alongside higher borrowing costs, cutting into profit margins;
- Price pressures triggered by a food-price spike following the 2009 drought have passed through to wages and intermediate goods and services;
- The proportion of publicly-listed firms recording losses was 28% in Q1, a sharp increase from just 10% in the full 2010 calendar year;
- Indian firms have become more leveraged and exposed to tighter monetary policy, with investment slowing in Q1 2011 as a sign of volatile confidence.

South Africa

Opportunities:

- Real GDP growth will remain in positive in 2011-12, creating opportunities in the agriculture, forestry and fishing sectors in particular;
- Retail sales benefit from firm domestic demand, supported by the neutral monetary stance and the strong rand, which is reducing import costs;
- Export growth is modest, supported by growing demand for gold;
- The ratio of non-performing loans to total loans fell to 5.7% in May 2011 (down from 5.9% at end-2010) as credit risk eased, particularly in the service sector.



South Africa	
Import Opportunities	High
Business Uncertainty	High

Risks:

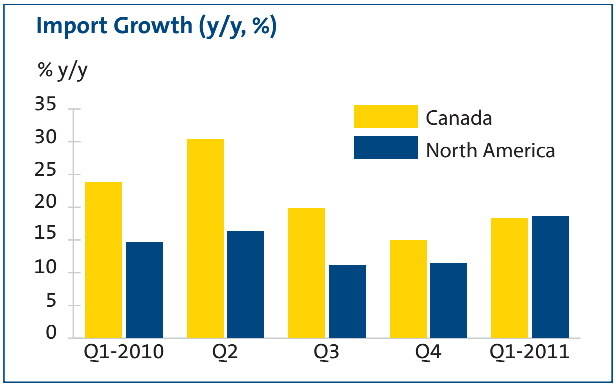
- A sovereign debt default in the US or the euro-zone's periphery economies (and subsequent downturns in such markets) would weaken South Africa's exports;
- Calls for nationalisation of the country's mines and banks by the ruling party's youth league will continue to undermine long-term investment plans;
- Wage settlement rates will rise amid recent demands for higher wages by trade unions, thus undermining corporate profits, while raising inflation expectations;
- Upward wage pressures, along with high oil and food prices, will sustain high inflation risks.

For more information about trade terms, please contact D&B Country Risk Services.

Canada

Opportunities:

- Canada's natural resource sector (which accounts for nearly 50% of exports) has benefited handsomely from high global commodity prices;
- A number of large-scale investment projects in the country's metal and oil and gas sectors reflect Canada's favourable export prospects;
- The natural resource sector boom will create beneficial spill-overs for the country's manufacturing and services sectors;
- The strong currency increases the purchasing power of importers.



Canada	
Import Opportunities	High
Business Uncertainty	Low

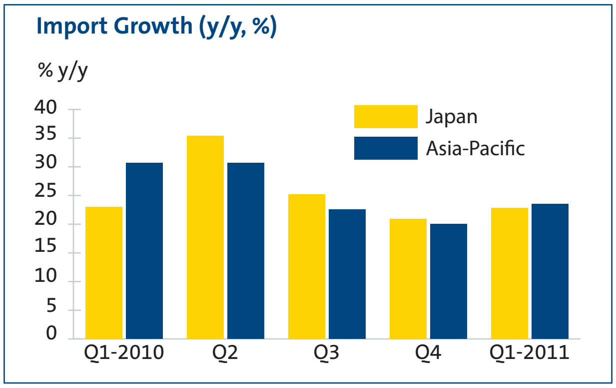
Risks:

- Consumer demand is fragile: the housing market is cooling, rising prices are eroding workers' real incomes, and there are high levels of household debt and still-elevated levels of consumer bankruptcies;
- Sectors still recording relatively large numbers of business failures (manufacturing, retail trade, construction, accommodation and food services, and transportation) require extra vigilance;
- Rising input costs and the strength of the currency pose risks to companies exporting from Canada.

Japan

Opportunities:

- The damage to national economic capacity from the Great East Japan earthquake in March has resulted in greater opportunities for imports in various sectors;
- Food, energy and even some industrial components imports will rise, with Gulf producers, China and southeast Asian countries due to benefit;
- Reconstruction has been slower than expected, given the scale of the devastation and nuclear pollution, but will eventually boost demand from Q4 2011 to 2013;
- Consumer behaviour has altered in favour of buying energy-saving devices, resulting in new business opportunities.



Japan	
Import Opportunities	High
Business Uncertainty	Medium

Risks:

- The heavy disruption to supply chains will have damaged smaller firms financially, and we expect a lagged increase of bankruptcies and cessations;
- Supply chain disruptions will persist as electricity generating capacity has been damaged and more nuclear shutdowns are likely due to policy changes;
- We expect the economy to shrink by 1.5% in 2011, despite the start to reconstruction efforts by Q4;
- The disaster will permanently lower the economic capacity of the northeast region and further burden government debt (already over 200% of GDP).

For more information about trade terms, please contact D&B Country Risk Services.

D&B Country Risk Services

At D&B Country Risk Services we have a team of economists dedicated to analysing the risks of doing business across the world (we currently cover 132 countries). We monitor each of these countries on a daily basis and produce both shorter analytical pieces (Country RiskLine Reports; at least one per country per month for most countries), as well as more detailed 50-page Country Reports. For further details please contact D&B Customer Service on **+45 3673 8060** or email **ks@dnbnordic.com**.

Additional Resources

The information contained in this publication was correct at the time of going to press. For the most up-to-date information on any country covered here, refer to D&B's monthly International Risk & Payment Review. For comprehensive, in-depth coverage, refer to the relevant country's Full Country Report.

Credits: This report was produced by D&B Country Risk Services, and contains contributions by Tom Christie, Riccardo Fabiani, Martin Koehring, Isaac Leung, Gaimin Nonyane and Andres Tacsir.