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panorama

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Corporate Payment Trend and Sectorial Risk in Asia Pacific

CONTENTS

By Rocky Tung
Economist, Asia Pacific

From the hawk's-eye view, Asia's economic growth momentum remained strong in the post-crisis era, with Coface's forecast pointing to a 6.1% YoY growth for Emerging Asia in 2014. Such momentum partly came from the dividend of economic bloom of the 2 biggest emerging markets, China and India, during the past decade. However, with growth outlook of these two countries notably lower than the long-term growth trend, Asian economies are by no means not facing zero headwind, and businesses in these economies may need to form different sets of strategies heading into such waves of change.

For businesses practitioners, one of these challenges is to keep the growth momentum going while not losing their assets on bad debts; but the task would not be easy. Due to the "developing" nature of the Asian economies, insolvency data is very difficult to come by to say the least. As a result, we used the annual payment survey result in this report to chip in as a dimension when we look at the economic situation in these economies.

For Asia as a whole, roughly 68% of the respondents told us that they have faced overdue situation in 2013 (compared to 67% in 2012) and overdue situation has moved slightly toward the long-end. Moreover, while only 30% of the respondents shared that long-term overdue (i.e. at least 180-days) has weighted more than 2% of their annual turnover in 2013, signaling an improvement compared to the 37% respondents in 2012. Such results point to a stabilized corporate payment experience in Asia in 2013.

Specific trends of economic development, corporate payment experience, and industry payment experience review in various economies are discussed in this report.

Macroeconomic analysis

By Rocky Tung
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On the ground

Background

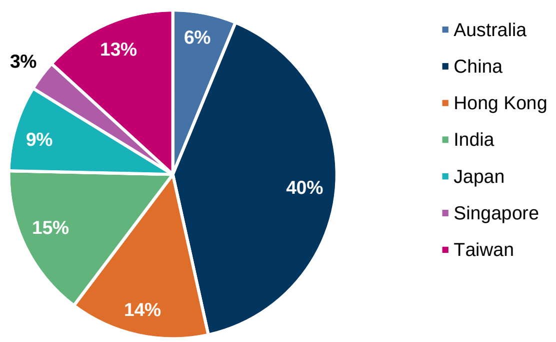
In the absence of straightforward economic data we can use to trace the evolution of corporate payment behavior in most emerging Asian economies, Coface (Asia Pacific) conducts surveys in various economies to better lay this out for our clients. Although the study is by no means exhaustive, this report is designed to be a point of reference for us to take a look at the economic and business environment in these economies, as we explain our rationale utilizing the survey result as well as different macroeconomic and microeconomic indicators.

This payment survey gives us insights on what happened to the credit experience in various companies in the Asian economy and how it is evolving over time. Particularly, the payment survey allows us to understand the general status of corporate credit management practice and experience in selected economies in Asia. Reflected in the responses of the survey, we can have a better understanding of Asia-based companies' payment experience and how credit management tools are used to mitigate risk.

Coface has first started the survey series in China since 2003, while we have started adding more economies in the mix[1]. Data collection period was between October 2013 and early-February 2014. During the period, the survey questionnaire was sent out to numerous companies. We have received valid responses from 2373 companies[2].

Among the 2373 surveyed companies, roughly 40% of the companies were located in China. India, Hong Kong and Taiwan contributed 15%, 14% and 13% of the sample size of the valid responses, while Japan, Australia and Singapore made up the rest of the survey respondents.

Countries of respondents

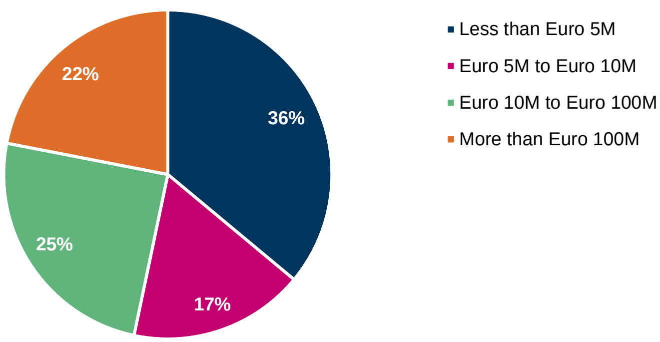


(1) Coface has published a separate report on China's corporate payment behavior in February 2014

(2) Survey data is collected and cleaned up by Coface's marketing teams, both regional and those based in the respective economies. The author of this report would like to thank the colleagues in the marketing department who contributed tremendously to the report.

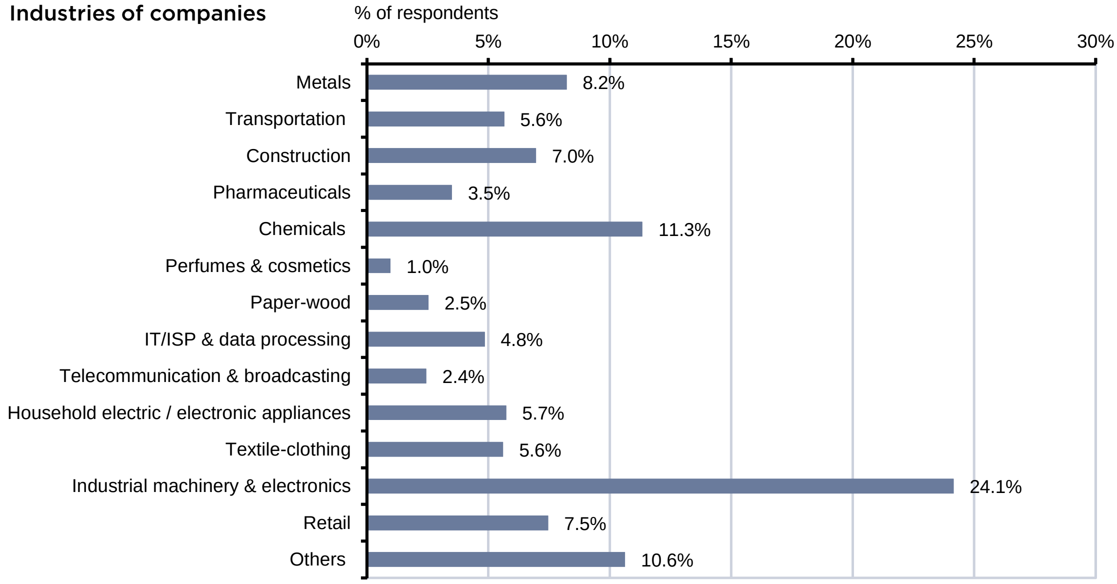
Business size of the companies interviewed was wide-spread. As illustrated in the chart below, among the 2373 valid respondents, 36% of them had estimated sales revenue of lower than EUR5m in 2013, while 17% of them expected sales revenue to be between EUR5m and EUR10m. One-fourth of the companies had estimated revenue of 2013 between EUR10m and EUR100m, while the rest of them had annual revenue of more than EUR100m.

Profile of interviewed companies in Asia Pacific



Respondents from the survey come from various industries. As illustrated below, the most represented industry is "Industrial machinery& electronics", representing roughly 24% of the sample size. The second and third largest sectors in the survey are "Chemicals" and "Metals", which represent some 11% and 8% of the sample size, respectively[3].

Industries of companies

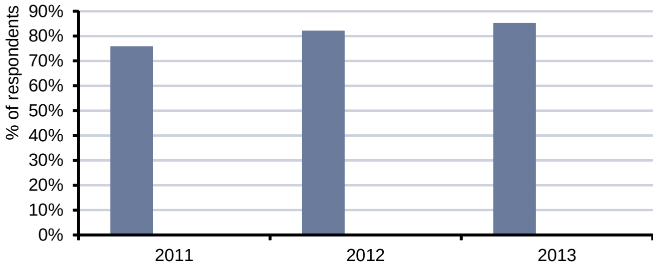


(3) In Coface's sector barometer nomenclature: "Perfumes & cosmetics" should belong to "Retail" sector; "Household electric/electronic appliances", "IT/ISP & data processing", and "Telecommunication & broadcasting" belong to "Electronics, IT and telecoms" sector; "Industrial electronics & machinery" is split between "Engineering" and "Electronics, IT and telecoms" sector.

Credit management practices

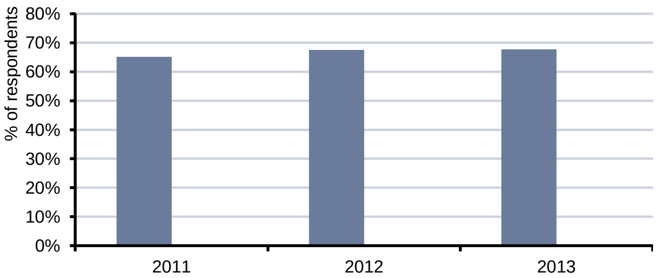
According to the survey respondents, there are a higher percentage of companies having offered credit terms to the customers in 2013, comparing to 2012. When asked whether or not they have offered credit terms to their customers over the past 12 months, 85% of the respondents told us that they did so, comparing to the 82% in 2012. Told by 52% of the respondents (vs. 51% in 2012), market competition remains as the main reason why sales on credit terms were extended to customers in 2013.

Companies offered credit terms to your customers during the past 12 months



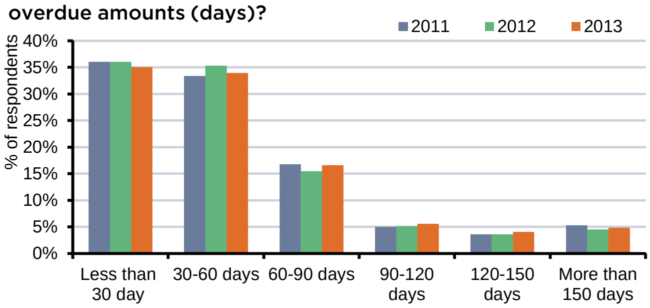
68% of the companies shared with us that they have experienced overdue situation in 2013; such number was also 67% in 2012. This number alone is not convincing enough for us to declare that the payment situation has deteriorated on a year-on-year basis, as the difference was hugely attributed by the rounding of decimal places (67.72% in 2013 vs. 67.47% in 2012).

Companies experienced overdue payment in their sales during the last 12 months



Suggested from the chart below, the average length of overdue period slightly extended. Relatively long overdue situation – as we define in this report – are considered as overdue payments that are not paid beyond 90-days. Such situation, alone, is not causing too much worry as survey results show that the so-called relatively long overdue situation has remained relatively flat throughout the last 3 years.

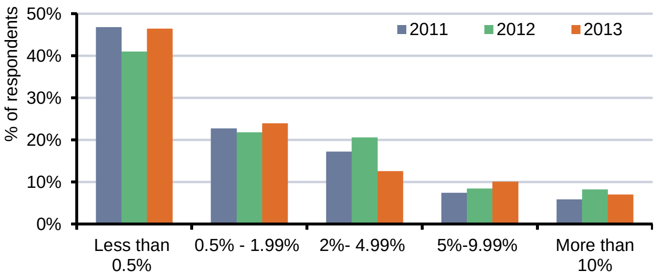
On average, how long are the above mentioned overdue amounts (days)?



While overdue payment does not always translate into bad debts, long-overdue payment usually does. According to Coface's experience, there is an 80% chance that long-overdue (i.e. 180-days and beyond) would not be paid back at all. Particularly, if long-term overdue payment weighs as a high percentage of the annual sales, it could create liquidity and operational pressure for these companies. To put that into context, if a company's net margin is 5% and long-term overdue weighs 10% of the annual turnover, much of the profitability would be wiped out.

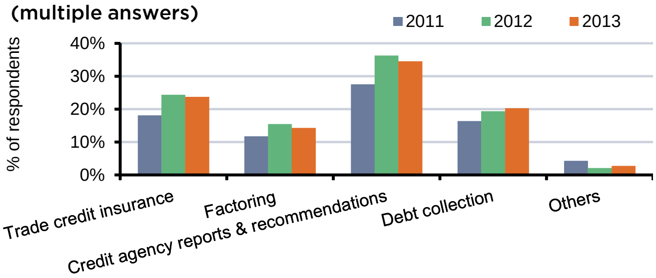
Depending on how the data is interpreted, the long-term overdue situation has improved in some dimensions by has seen deterioration in another. Traditionally speaking, we believe that if long-term overdue weighs more than 2% of annual sales, it would be something to take note of. If we use such threshold as a benchmark, the overdue situation in 2013 (30% of respondents) has, in fact, slightly improved comparing to 2012 (37% of respondents). However, if we pay more attention to such data, the "improvement" was actually contributed by a significant drop in the 2-4.99% category (21% in 2012 to 13% in 2013), while we have seen a relatively strong pick up in the 5-9.99% category. For such reason, we must address in here that there could be a potential that more companies are seeing high-volume long-term overdue, which would be putting pressure on these Asian companies.

The ratio of aged overdue debts over 6 months as a percentage of your total annual turnover is :



64% of the respondents told us that they are using some form of credit management tools in light of potential issues arising from credit sales, reflecting a slight decline comparing to 2012 surveyed result (i.e. 66%). The Asian companies have indicated their preference of credit management tools used in the business operations, with credit agency report and recommendations being the most popular tool used; 35% of the respondents told us that they have been using such products. The usage of credit insurance – the core product of Coface – and factoring saw similar but slightly declined usage by the survey respondents the comparing to 2012.

Which of the following credit management tool(s) are you using in your company? (multiple answers)



3/ ANALYSES OF DIFFERENT ECONOMIES: MACRO, SURVEY RESULT, AND KEY INDUSTRIES IN THE RESPECTIVE ECONOMIES

Stage of development, corporate payment behavior, and economic outlook – among the others – are very different in various Asian economies. While the overall picture of the combined result would provide us with a good overview of how the credit payment experience has evolved in surveyed economies, combined, has evolved over time, we may need to look deeper into results from individual economies to get a better sense of what is happening on the ground.

This section of the report is designed to provide a brief overview of the individual economies where the survey has been conducted. Analyses of the 6 different economnies are drawn into two parts. In the first part, readers can expect to have a quick **overview of the economies' macroeconomic environment and the major issues expected in 2014**; some substances are extracted from Coface's country risk handbook.[4] Moving toward the second part of this section, readers can also find in the section the **corporate payment experience in 2013 and the implications we draw from such findings**. In the third part, for most of the economies – except for Singapore, where we believe sample size of industry would not be statistically meaningful – readers would be provided **more information related to one key industry in those economies**. Selection of the industries was not arbitrary; these industries are picked either because they are the most representative in their respective sample size, or these industries are representative of the economic activities in the respective economies.

In a nutshell, industries in different economies mentioned are as below:

- Australia: Construction
- China: Household electric/ electronic appliances
- Hong Kong: Textile-clothing
- India: IT/ISP & data processing
- Japan: Fast-moving Consumer Goods (FMCG)
- Taiwan: Industrial machinery and electronics

This report also features more expanded analyses on Japanese retail and Taiwanese electronics sectors, as changes in the variables affecting these sectors are expected to be significant in the near-term and/or medium-term.

Some key figures

	Overdue experience		Average overdue days over 90-days		Long-overdue weighed over 2% of annual turnover		Companies not using credit management tool
	2012	2013	2012	2013	2012	2013	2013
Average of 7 Asia-Pacific economies	67%	68%	13%	14%	37%	30%	36%
Australia	83%	85%	9%	10%	43%	23%	24%
China	77%	82%	13%	18%	36%	33%	37%
Hong Kong	57%	53%	19%	12%	49%	35%	39%
India	56%	63%	18%	10%	60%	30%	42%
Japan	42%	36%	7%	6%	14%	8%	14%
Singapore	68%	76%	20%	21%	53%	45%	37%
Taiwan	77%	56%	7%	14%	11%	16%	43%

The above percentages refer to the percentage of respondents in the samples.

(4) Some information is also available www.coface.com

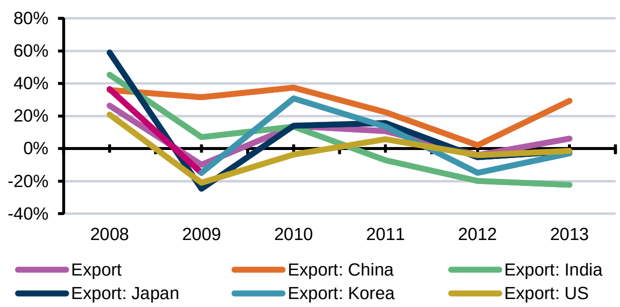
AUSTRALIA: EXTERNAL DEMAND TO BE HINDERED BY THE WEAKER DEMAND GROWTH FROM CHINA

Country risk assessment		Business climate Assessment	GDP growth (%)	
January 2014	January 2014	2014	2013	2014
A2	A2	A1	2.4	2.8

Source: Coface

Australia's growth slowed in 2013, in line with the downturn in commodity prices, a major component of Australian exports. As for 2014, the Australian current account deficit is expected to expand further in 2014 due to slower demand from China and strengthened internal demand for machinery and capital goods. On the export side, mining (coal and iron ore) and energy (coal gas and natural gas) activities are largely dependent on demand from China (21% for goods and services, 60% for iron). While demand of natural resources from China is expected to slightly expand in 2014, growth rate is expected to start a declining trend comparing to previous years, as the Chinese government is expected to tackle overcapacity issues, which are especially serious in resource-intensive industries like steel and aluminum. Moreover, the strength of the Australian dollar is lowering the competitiveness of Australian goods and services. As such, the 30% YoY export demand from China seen in 2013 may be difficult to repeat.

Export set to be hit by slower demand growth from China

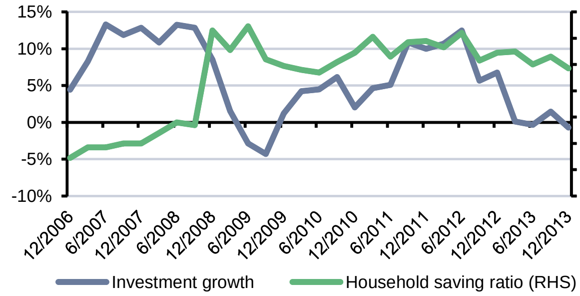


Source: CEIC, Coface

Domestic demand also slowed 2013. Gross fixed capital formation barely grew 0.1% in 2013 compared to a year ago. As a result of that, Prime Minister Tony Abbott has promised to liberalize the country and promote investment. One of the first measures taken will therefore be directed to businesses. Abbott has pledged to abolish the carbon tax and the tax on mining companies' profits.[5] With the optimism injected and a low comparable base, investment is therefore expected to contribute positively to growth in 2014.

Public debt (27%) is low compared with that of other developed countries (75%); the government therefore has room to maneuver in order to sustain domestic demand. Reserve Bank of Australia's (RBA) record low policy rate 2.5% will positively impact household finances – positive effect on disposable income. Although climbing steadily, with inflation still at relatively low level (2.9% YoY in 1Q2014), there may be room for the central bank to add more monetary stimulus, potentially further rate cuts to rejuvenate the economy. Nevertheless, additional steam will need to come from an improvement in the unemployment situation (unemployment rate of 5.8% as of March vs. 5.4% as of end-2012) and a less conservative household spending behavior (household savings ratio at 9.7% as of end-2013 vs. average of 4.2% between 1990 and 2007).

Sluggish investment demand and high saving rates



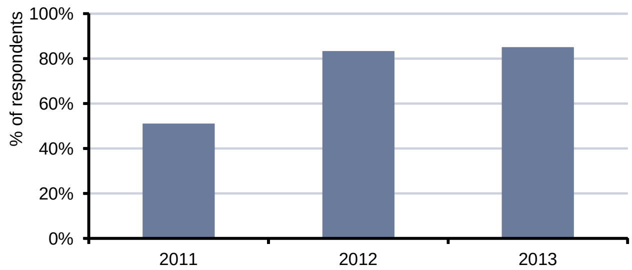
Source: CEIC, Coface

Australia: corporate payment experience

Overdue payment became more common

In Australia, according to the survey respondents, all of the businesses have average credit terms at or below 90-days. When asked about whether or not they have experienced any overdue payment in the last 12 months, 85% of the respondents told us that they have had such experience, comparing to the 83% as reported in the 2012-survey.

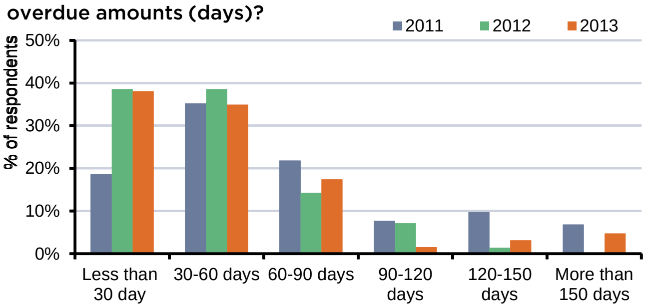
Companies experienced overdue payment in their sales during the last 12 months



On average, while most of the overdue amounts were repaid within 90 days after the credit terms expired – 90% in 2013 vs. 91% in 2012 – there was quite a drastic rise, as told by the survey respondents, that average overdue has moved toward the long-side. 8% of the respondents shared with us that the average overdue day was 120-days and beyond; such finding was only shared by 1% of the respondents in 2012.

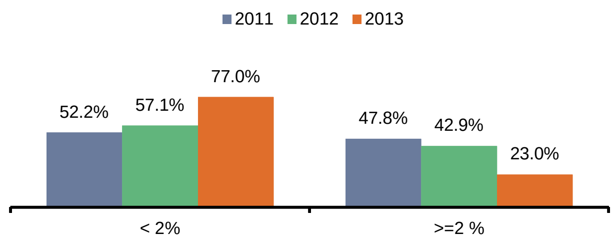
(5) In early 2013, the Bureau for Resources and Energy Economics confirmed that 18 major mining and energy investment projects worth a total of AUD149bn (9%of GDP) had been deferred or cancelled in the previous 12 months (e.g. expansion of the Olympic Dam copper-uranium mine, construction of an export terminal at Port Hedland, etc.)

On average, how long are the above mentioned overdue amounts (days)?



Good news for businesses in Australia is that long-term overdue (i.e. overdue payments that aren't paid within 6 months after the credit terms ended) has not weighed significantly on company's cash flow, comparing to 2012. Only 23% of the respondents shared with us that long-term overdue has weight more than 2% of the annual turnovers. Such percentage represented a huge improvement as compared to previous years, as 43% and 48% of respondents shared with us that they had seen long-overdue weighing more than 2% of their annual sales in 2012 and 2011, respectively.

The ratio of aged overdue debts over 6 months as a percentage of your total annual turnover is :

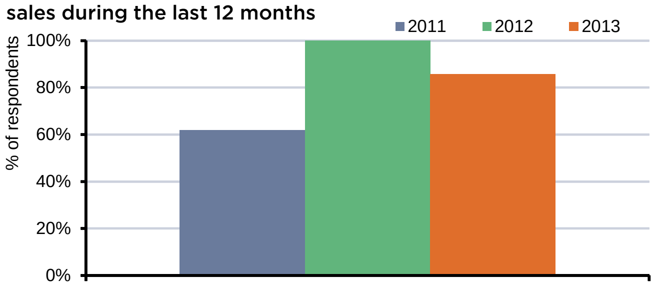


Australia's construction sector

Overdue situation remains an issue

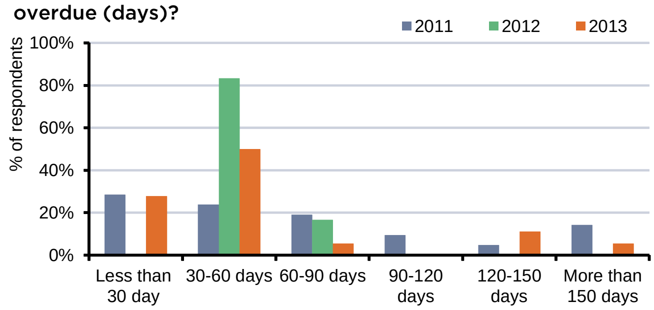
From the surveyed result, Australia's construction seemed to have experienced improved payment experience in 2013. For the second year in a role, industry respondents from Australia told us that average credit terms extended during the year was straightly capped at 90-days. At the same time, when asked about whether they have experienced any overdue payment during the past 12 months, 86% industry participants shared that they have experienced overdue situation, compared to the 100% as we were told by the industry participants in 2012.

Companies experienced overdue payment in their sales during the last 12 months



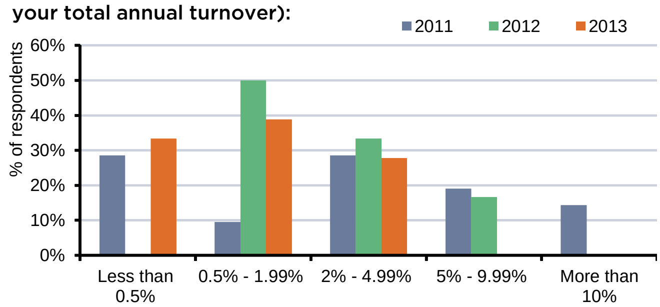
For the construction sector in Australia, as shown in the result coming from the survey, some of them have experienced lengthened overdue period in 2013 comparing to a year ago. 17% of the respondents shared with us that the average overdue period is longer were 120-day and beyond; such experience was not reported by any respondent in 2012.

On average, how long is the above mentioned overdue (days)?



While overdue period seemed to have extended comparing to a year ago, the amount incurred in the long-overdue (i.e. 6-month and beyond) seemed to have declined. As suggested by 28% the survey respondents from the industry, long-term overdue weight more than 2% of the annual turnover, that has shown a declining trend compared to previous years (50% in 2012 and 62% in 2011), indicating that the sector may be benefiting from improving business atmosphere.

The ratio of overdue over 6 months is (in % of your total annual turnover):



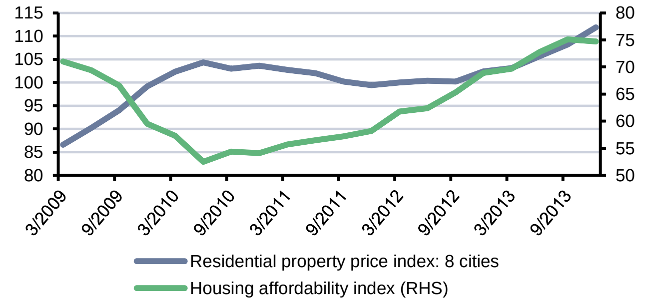
Construction sector is an important component of the Australian economy, with completed construction amounted over AUD210billion in 2013. While property prices have been on the rise since September 2012, properties have also become more "affordable", according to data compiled by Housing Industry Association.[6]

Although this may point to potential support for the housing market going forward, we remain less optimistic. The biggest argument is that, although improving, affordability of the housing market remains low, as the lower-than-100 value indicates that, on average, a household – that makes average annual income – would have less than the income necessary for an average mortgage servicing. With weak growth in household income and interest rate already at close to historical low levels, it is less likely the affordability of Australian property market to improve significantly. With other variable being held constant (e.g. no fiscal

(6) Housing Industry Association

or monetary stimulus), such trend shall lead to weak demand growth, which may turn into a negative shock to the payment experience for the industry.

Expensive and not-quite-affordable properties



Source: CEIC, Coface

Country risk assessment		Business climate Assessment	GDP growth (%)	
January 2014	March 2014	2014	2013	2014
A3	A3	B	7.7	7.2

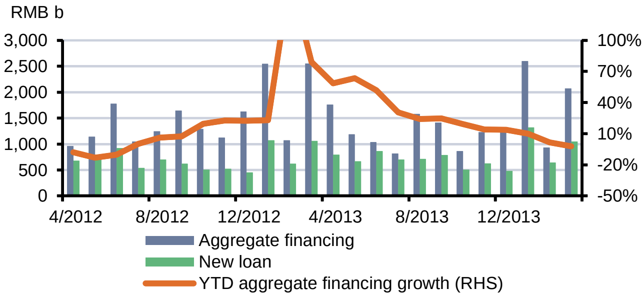
Source: Coface

In an earlier report – What to expect in 2014 – published in January, we called 2014 a year of divergence for China, indicating that certain sectors would be facing hiking pressure, while albeit slowing, GDP growth would remain decent at 7.2% without massive stimulus in sight[7]. Since the release of the report, cost of financing remained tight in 1Q2014 and there are limited signals pointing to improvement of the situation in the near-term.

Nevertheless, although M2 growth target has been set at 13%YoY by the government, the low inflationary pressure is expected to give more leeway for the government to ease the increasing borrowing cost of corporates as we have witnessed since 2013. It could be a big positive for the economy if accessibility to credits by the real economy can be improved, and the government may have set up a new agenda.

After a pre-announcement signal from the State Council, the People's Bank of China (PBoC) announced on April 22 that the required reserve requirement (RRR) for rural commercial banks would be cut by 2%, while a 0.5% cut would be due for rural cooperatives from April 25. The State Council suggested that such move would be supportive to rural area development and the agriculture sector. Without taking multiplier effect into account, however, such rate cut would account for RMB150b worth of liquidity to the system, and is deemed marginal to the world's second largest economy.[8] The selective approach of RRR cut shows that the policymakers are still reluctant to introduce a broad-based loosening monetary stance just yet, even though there are signs of challenges to the 7.5% growth target. Nevertheless, the underlying message from the move is that policymakers are behind the stable economic translation is meaningful.

Slowing credit expansion



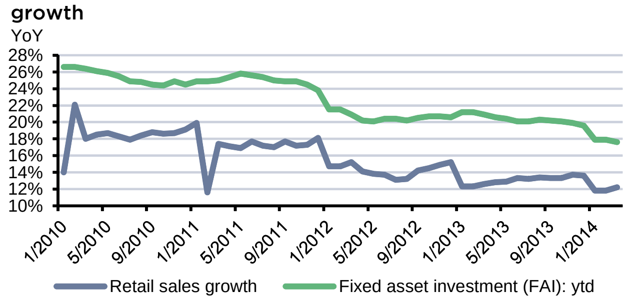
Source: CEIC, Coface

Besides the symbolic rural financials' RRR cut, the government has also followed up with the more inclusive infrastructure plan as suggested in the 3rd Plenary Session in November (see [China – Targets by 2020]). Policymakers at a State Council meeting – as usual, led by Premier Li Keqiang – on April 23 have committed to open up access to new infrastructure projects to private sector investments; policymakers from the meeting are said to give the market more degree of freedom in terms of the decision making process. It is said that investment projects that require approvals will become fewer, while the approval process should also be streamlined.

Particularly important, it is set to open 80 infrastructure projects to private investors; these projects include investment in railways, ports, environmental-friend energy, and IT infrastructure projects. Industries involved would include, but not limited to, hydro-electric power, wind-power, oil and gas pipelines, and chemical industries. Such development – giving the "market" a larger role – would ideally make investment more efficient and thus it could be a sustainable driver of growth.

Bearing in mind that income growth has been on a declining trend, investment should maintain as the growth driver of the Chinese economy in the near-term, despite policymakers singling out consumption as the new growth driver. With the government's advocated determination in early-April to introduce higher quality infrastructure development, investment projects will continue to expand. Nonetheless, as many of these would be continuum from existing projects, the slower growth of introduction of new projects could change our investment scenario in the projection (currently we factor in 20% YoY growth in fixed asset investment). But key industry beneficiaries would continue to be railway developers, together with environmental friendly industry participants.[9]

Declining investment and consumption demand growth



Source: CEIC, Coface

External trade should remain buoyant in 2014. After growing 7.8% in 2013, exports have dropped 3.5% in 1Q2014, though the relatively slow growth could well be due to the exaggerated trade figures widely-reported in 1Q2013. Similar to the other Asian economies, it is believe that China's export momentum will pick up in 2014 due to economic recovery in the advanced economies. Together with the close-to 3% year-to-date depreciation of renminb (Coface expects 2.5% YoY appreciation against the

(7) Coface (January 2014) China. - What to expect in 2014

(8) A rough estimate using China Banking Regulatory Commission data (as of 2012 year-end): rural commercial bank and rural credit cooperative had total liabilities of RMB5,784b and RMB7,552b, respectively.

(9) Coface (November 2013) China: Targets by 2020

USD), "Made in China" products should be quite competitive against products from the peers, both in terms of quality and price.

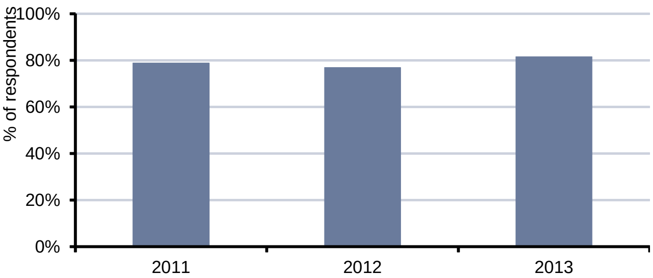
China: corporate payment experience

Worsened corporate payment experience

Among the companies that did offer credit sales, most of them (about 68.3%) responded that the average credit terms offered was no more than 60 days, which is around what is expected in an ideal business situation. Such figure, however, has declined significantly from the 79.7% as we have seen in 2012; in other words, more companies have seen the average credit terms expanded during 2013. Particularly noteworthy, among companies that offer credit sales, 11.4% of the companies saw average credit terms of 120 days or longer, comparing to 5% only in 2012.

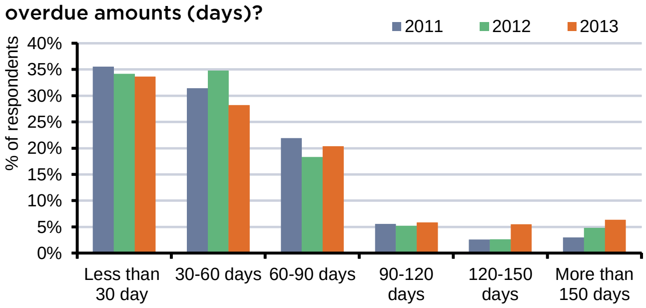
Payment overdue has happened to more companies in 2013 as compared to previous years according to the survey. 81.9% of the companies that have used credit sales experienced overdue payment in 2013, as compared to the 77.2% in 2012. Key reasons are customers' financial difficulties (52.5%) and customers' management problems (23.5%). The 5 point increase is a red flag that the payment experience in China has deteriorated during the course of 2013.

Companies experienced overdue payment in their sales during the last 12 months



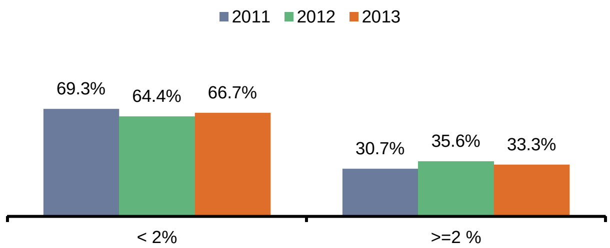
Similar to what we have observed over the last few years, the majority overdue in 2013 was within in 90 days, which has shown a fairly steady trend since 2011. However, as we can see from the chart below, the length of overdue periods the companies faced have also established an increasing trend. In 2013, 17.8% of the companies who experienced overdue payments have seen average overdue days beyond 90 days; such figure was 12.6% in 2012 and 11.2% in 2011, respectively.

On average, how long are the above mentioned overdue amounts (days)?



Roughly 33% of the respondents from China shared with us that long-term overdue (i.e.180-days overdue) has weighed more than 2% of their respective companies' annual turnover; such trend, from the surface, reflects a slight improvement from 2012, when 36% of the respondents reported such issues. However, if we look into the details of the data, much of the decrease has indeed come from the 2-5% category (11% in 2013 vs. 18% in 2012), while 22% of the respondents said that long-term overdue has weighed over 5% of their annual turnovers (vs. 18% in 2012). Such trend leads us makes it hard to justify long-term situation has improved in China in 2013 comparing to a year ago.

The ratio of aged overdue debts over 6 months as a percentage of your total annual turnover is :

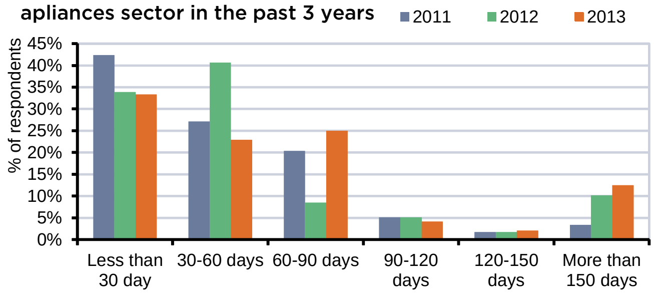


China's household electric/ electronic appliances sector

Ran out of energy

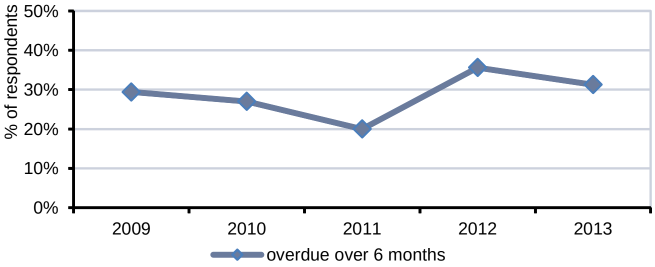
Survey respondents coming from the household electronics sectors showed us that the overall payment experience has deteriorated slightly in 2013. Consistent with previous years, over 90% (i.e. 90.7%) of the respondents expressed that average credit terms offered remained below 90-days, with an increase in respondents showing us that they are now offering more 90-day terms than before (i.e. 22.2% in 2013 vs. 13.6% in 2012). What could potentially become an issue is the increase in lengthy overdue payments. Survey respondents have experienced lengthened average overdue periods in 2013 comparing to 2012. Specifically, 12.5% of the respondents from the industry told us that their average overdue days exceeded 150 days in 2013, while only 10.2% and 3.4% of the survey respondents had faced such situation in 2012 and 2011, respectively.

Average overdue days in household electric/electronic apliances sector in the past 3 years



Nevertheless, a lower percentage of companies shared with us that long-overdue weigh more than 2% of the annual turnover; only 31.3% of the industry participants shared with us that overdue payment that lasted for 6-months or beyond exceeded 2% of their overall sales, declining from 35.6% in 2012. While that could be a sign of improvement, after taking a deeper look in the various subsectors in the industry, it is suggested household electronics sector - particularly computer machine related companies - is at fairly high risk.

% of companies in the sector having More than 2% of their domestic sales in overdue



For more analyses on the payment behavior of Chinese corporates, please refer to the report, *Reality Check: Corporate Payment Trend and Sectorial Risk in China*.

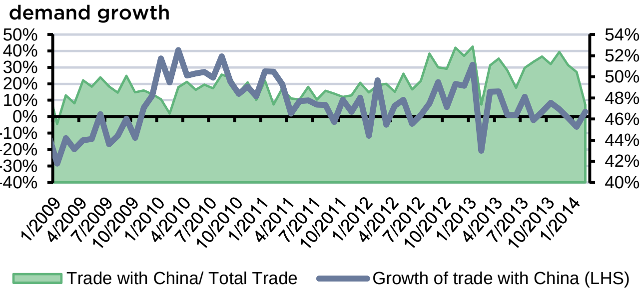
HONG KONG: LIMITED STIMULATION IN SIGHT

Country risk assessment		Business climate Assessment	GDP growth (%)	
January 2014	March 2014	2014	2013	2014
A1	A1	A2	2.9	3.0

Source: Coface

Economic activity will pick up in Hong Kong in 2014 with growing demand in exports – mainly destined for Asian markets – and modest consumption growth. The expectedly faster growth in the developed economies, including the US and certain European economies, are also expected to support the country's exports, which represent some 350% of the special administrative region's GDP. Downside risk of external demand comes from China – which represents around 50% of the economy's exports – as growth of Chinese economic activities is expected to slow in 2014.

Export outlook clouded by slowing Chinese demand growth

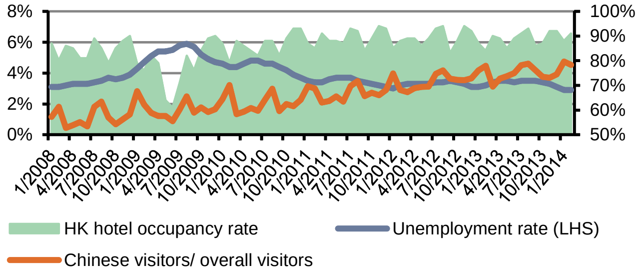


Source: CEIC, Coface

Hong Kong's public finances will remain solid, and the city is expected to post a fiscal surplus of over 3% in 2014. The most notable downside risk to such assumption is the ripple effect from the moderation of property prices, causing a reduction of government revenue from land sale and stamp duty, which makes up some HK$100billion, combined. Nevertheless, investment projects including the Hong Kong–Zhuhai–Macau Bridge will continue to support the city's investment activities. Moreover, Chief Executive Leung Chun-ying has recently said that the housing market is no longer overheated, which could be hinting less tight measures against the property market in the city.[10]

The aforementioned factors, combined with the low unemployment rate (2.9% as of February 2014), would be favorable for domestic demand. Yet, bearing in mind that spending of tourists – particularly tourists coming from China that represent some 78% of total visitors in February 2014 – contributed some USD38 billion in 2012, consumption growth may see hiccups due to the widespread effect coming from the Chinese government's effort to tackle corruption.

Stable economic outlook with no stimulus in sight



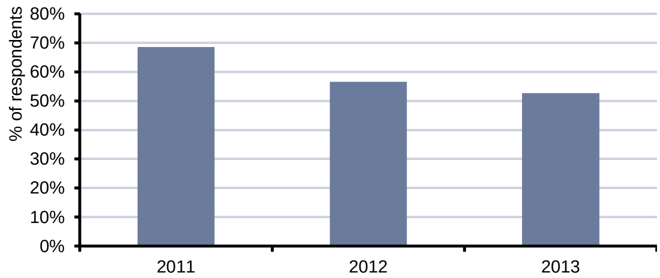
Source: CEIC, Coface

Hong Kong: corporate payment experience

Improved corporate payment experience

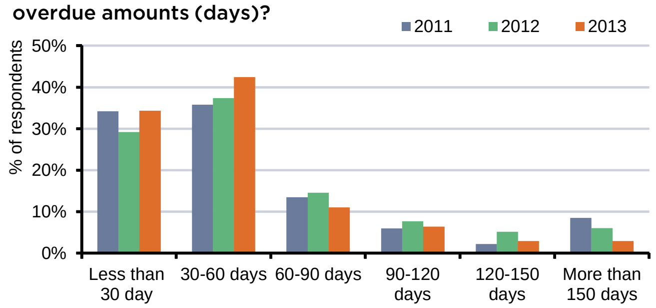
Most of the survey respondents from Hong Kong told us that most of the businesses have average credit terms at or below 90-days, with only 3% of the respondents sharing with us that their average credit terms were at 120-day or beyond. Overdue situations were only experienced by 53% of the respondents from Hong Kong, indicating a 4% decline comparing to 2012's 57%.

Companies experienced overdue payment in their sales during the last 12 months



On average, as reported by these respondents, the average overdue periods were relatively short. Comparing to 2012 when 19% of the respondents shared with us that their average overdue period exceed 90-days, only 12% of the respondents in the 2013 survey shared the same experience.

On average, how long are the above mentioned overdue amounts (days)?

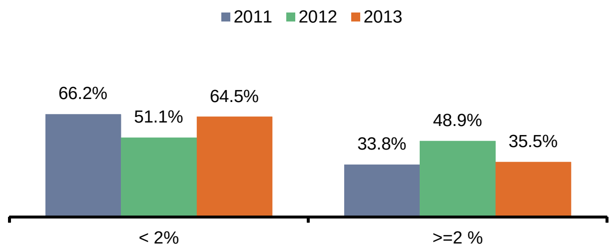


Another point of reference also points to improving corporate payment experience in Hong Kong. Only 35% of the respondents shared with us that long-term

(10) The Standard (April 2014) Leung eases overheating fears as demand slows

overdue weighs more than 2% of the annual turnover in 2013. Such figure was 49% in 2012, indicating to us that credit payment has experienced some improvement.

The ratio of aged overdue debts over 6 months as a percentage of your total annual turnover is :

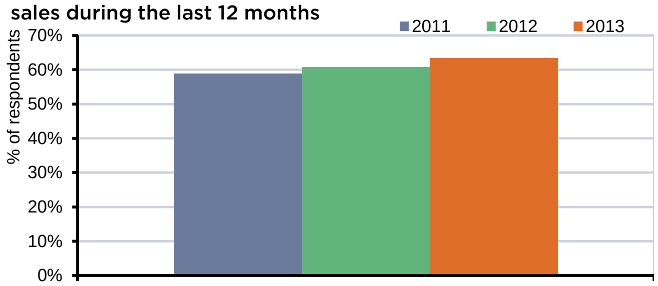


Hong Kong's textile-clothing sector

Underwhelmed by long-overdue payments

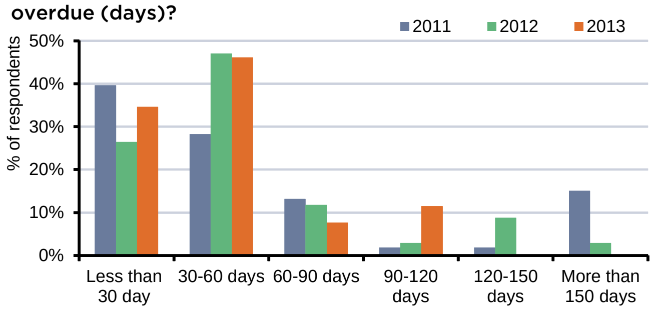
As told by the survey respondents in the industry, average credit terms of the textile industry in Hong Kong are mostly within 90-days, except 3% of the respondents. Comparing to the years before, overdue situation has become slightly more common in 2013; 63% of the respondents said that they have seen overdue situation in their business in 2013, comparing to 61% who had such experience in 2012.

Companies experienced overdue payment in their sales during the last 12 months



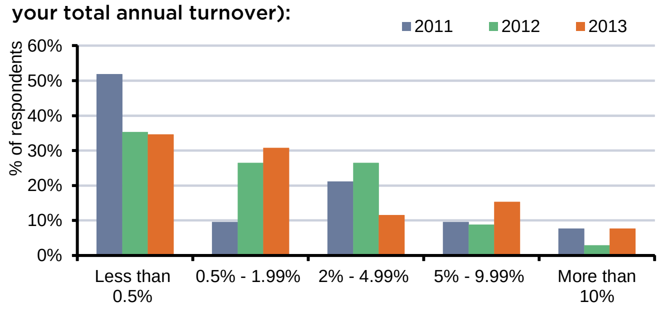
Much, if not all, of these overdue situations were resolved within a relatively short period. As reported by the survey respondents in the textile industry in Hong Kong, most of the respondents shared the experience that the average overdue period in 2013 was 90-days or below, with the exception of 12% industry participants who saw average overdue period of 90-120 days. Such experience was improved slightly from a year ago, when 15% of the respondents said that their average overdue period were 90-days and longer, with much of it coming from 120-days and beyond.

On average, how long is the above mentioned overdue (days)?



Yet, the survey result seems to suggest that long-overdue payment have remained an issue for the industry participants. 35% of industry participants said that their long-term overdue has weighed more than 2% of the annual turnover in 2013; such number was 38% in both 2011 and 2012. Albeit declining to 35% in 2013, such result remains a bit worrying, since Coface's experience shows that these long-term overdue has an 80% tendency to turn into bad debt; as 23% of the surveyed companies shared that these long-term overdue weigh more than 5% of the annual turnover, this should post some liquidity pressure on companies in the field.

The ratio of overdue over 6 months is (in % of your total annual turnover):



Slowing demand from China, as well as the weakened consumption demand from Chinese visitors as a result of the anti-corruption scheme, are the notable headwinds for the Hong Kong economy. Such headwinds could potentially extert negative pressure on the corporate payment experience in the special administrative region.

According to the survey respondents, 39% of the companies do not use any credit management tool to mitigate risk, exposing these companies to potential negative shock to their receivables, an important asset to any companies.

Such underutilization of credit management tools could be a result of the fact that SMEs do represent a fair share of companies in the city. According to Trade Development Council, as of December 2013, there were 314,282 SMEs operating in Hong Kong, employing some 1,298,500 people. As SMEs may generally face more resource constraints – and – it may be difficult for them to have a separate department for the credit control functions.

Regardless of the reason why credit management tools were not used among these companies, if the aforementioned negative pressure materializes, these businesses may be more exposed to negative payment experience.

INDIA: LESS-VOLATILE ECONOMIC ENVIRONMENT AHEAD

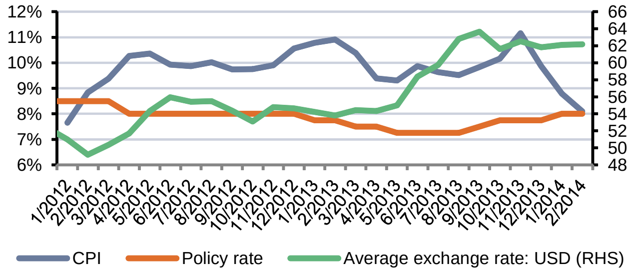
Country risk assessment		Business climate Assessment	GDP growth (%)	
January 2014	March 2014	2014	2013	2014
A4	A4	B	4.4	5.0

Source: Coface

India was the headline story in 2H2013 when it saw it currency depreciated rapidly against the greenback due to the tapering signals from the US Federal Reserve. Currency fluctuation and high inflation were the overwhelmingly worry issues for India, but they should subside in 2014 due to the government's active actions against those issues.

Growth recovery in the developed world should inject higher external demand for Indian goods and services and with rupee having depreciated much against the USD – among the other currencies – exports should gain momentum on a year-on-year basis. As a result of that, current account deficit in India is expected to moderate, but the strong demand of petroleum, gold and coal imports will prevent any significant reduction, despite the fact that Indian government has already imposed a high tariff on gold import (i.e. 10%).

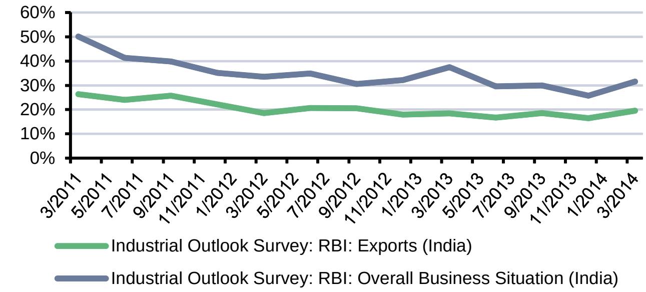
Tightening monetary policy stance slows inflation



Source: CEIC, Coface

Coface expects growth recovery in India in 2014, which could be further supported by the possible introduction of structural reforms related to the energy market and the facilitation of procedures for infrastructure projects. Industry sentiment seemed to have bottomed out in December 2013, which could be supportive to creating internal demand. Moreover, consumption is expected to gain pace in India, on the back of higher wages (e.g. average annual earnings at cotton textile mills grew 11.6% on average in 2013 among the 7 regions traced by the Labour Bureau Government of India).[11]

Industrial outlook could have seen a trough



Source: CEIC, Coface

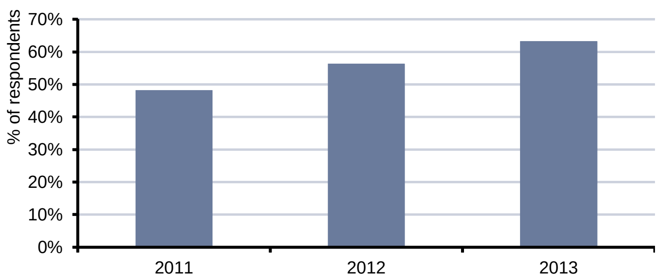
Fiscal deficit at local and federal level was cut in 2012/2013, but will remain substantial in 2013/2014, despite intended consolidation of the accounts - as shown in an overhaul of the subsidies system, tax rises, among the others. In addition to that, the 9-phase general election held from 7 April to 12 May 2014 would also lead to an increase in social spending. Last but not least, as the Congress Party succeeded in getting its food security bill adopted (1.5% of GDP), under which the purchase of rice and cereals will be subsidized, there is minimal room for India's fiscal deficit to see dramatic improvement.

India: corporate payment experience

More common overdue situations

The trend of average credit terms in India have stayed largely the same, with only 3% of the respondents sharing that their average credit terms was longer than 90-days in 2013, comparing to the 1% respondents who told us so in 2012. In general, overdue situation in India has become more common in 2013 comparing to previous years; 63% of surveyed respondents shared with us that they have experienced overdue situation in 2013, only 56% and 48% have told us so in 2012 and 2011, respectively.

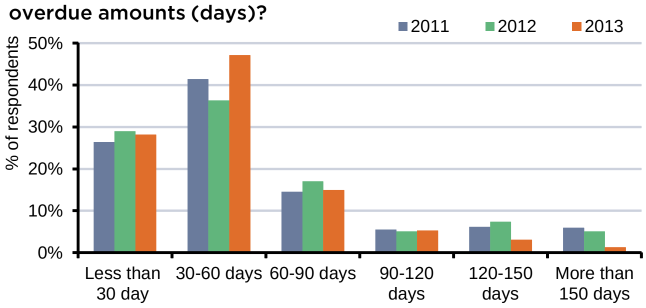
Companies experienced overdue payment in their sales during the last 12 months



90% of the respondents shared the experience that overdue payment were usually paid within 90-days after the credit terms expired; only 82% of the respondents were able to get their overdue amount paid up within 90-days in 2012. Particularly, we saw a drop in percentage of respondents sharing that they have experienced average overdue period of 120-days or beyond in 2013 (4%) comparing to 2012 (13%).

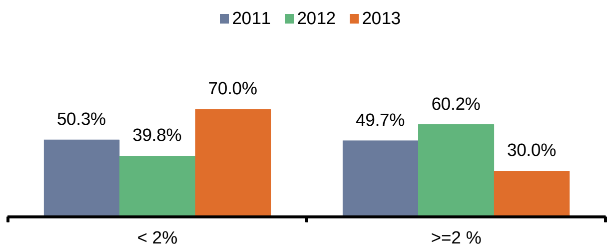
(11) The 7 regions are: Ahmedabad, Bangalore, Mumbai, Coimbatore & Chennai, Indore, Kanpur, West Bengal

On average, how long are the above mentioned overdue amounts (days)?



Such situation is echoed by a soothing long-term overdue situation as reported by these surveyed responded. When asked if they long-term overdue payments have weighed more than 2% of their annual turnover, "only" 30% of the respondents said that they have faced such situation, indicating a sharp improvement comparing to what the survey results from the last 2 years suggested (60% in 2012 and 50% in 2011).

The ratio of aged overdue debts over 6 months as a percentage of your total annual turnover is :

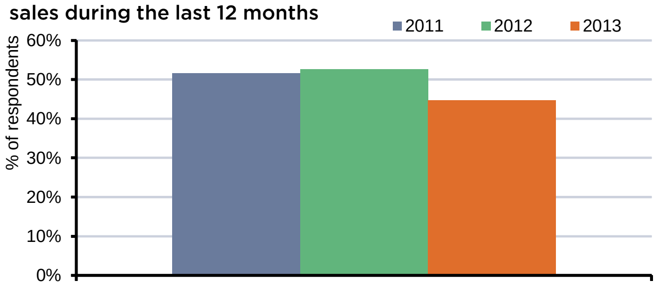


India's IT/ISP & data processing sector

improved payment experience

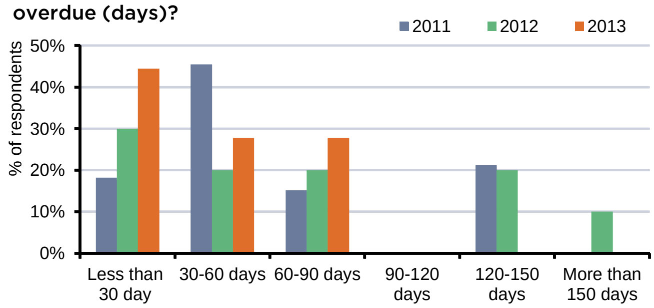
The IT/ISP & data processing industry has been the iconic industry in India. In 2013, the industry has experienced improved corporate payment experience. 95% of the industry participants from the industry in the world's second largest country by population shared with us that average credit terms offered in 2013 was 60-days or below, with the remaining 5% of the respondents having told us that the average credit terms was at 120-days. 45% the respondents from the industry experienced overdue payment situation in 2013, indicating a less common overdue situation comparing to 2012 and 2011, where 53% and 52% of the respondents told us they have experienced overdue situation, respectively.

Companies experienced overdue payment in their sales during the last 12 months



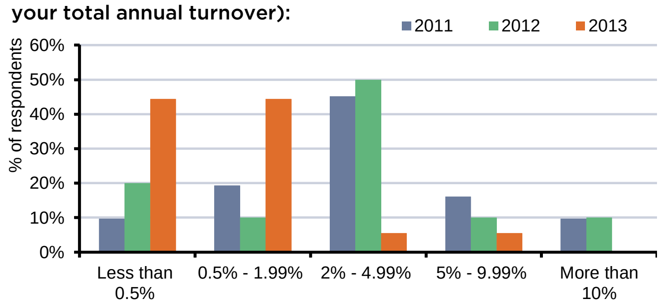
In 2013, IT & ISP industry participants shared with us that the overdue payments were, on average, paid within 90-days after the expiry of the credit terms. For the first time since 2011, average overdue days stayed strictly below 90-days, indicating improvement from 2012, when 30% of the respondents shared with us that the average overdue period was beyond 120-days.

On average, how long is the above mentioned overdue (days)?



Inline with the trend indicated above, the cases of long-term overdue weighing on companies' balance sheet has been less common. Only 11% of the respondents shared with us that long-term overdue payments weight more than 2% of the annual turnover; such situation was experienced by 70% and 71% of the industry participants in 2012 and 2011, respectively.

The ratio of overdue over 6 months is (in % of your total annual turnover):



While, in general, the indicators mentioned above may suggest that payment experience of companies in India has shown improvement in 2013, but as a higher percentage of companies told us that they have experienced overdue situations, we cannot be overly optimistic. Particularly, as some 42% of the survey respondents do not use any credit management tools, some could be exposed to volatility of the economy.

As the 9-phase election would be concluded on May 12 and results to be announced on May 16, some changes in the Indian economy should be expected. Among others, key areas to watch out for include exchange rate fluctuation and whether or not the new government – after election – will alter its policy stance.

JAPAN: ABENOMICS TO ADD STEAM

Country risk assessment		Business climate Assessment	GDP growth (%)	
January 2014	March 2014	2014	2013	2014
A1	A1	A1	1.5	1.4

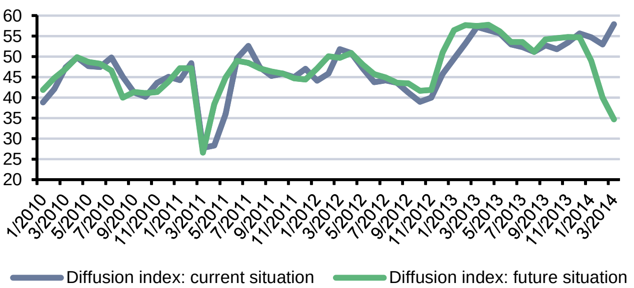
Source: Coface

After seeing stagnant growth in much for the past two decades, Prime Minister Shinzo Abe has injected much optimism to the Japanese economy since he took office in late 2012. With the first 2 arrows in place and well accepted by both the domestic and international communities, Abenomics – a term that summarizes various measures on fiscal policies, monetary policies and structural reform plans that aim at revitalizing the Japanese economy – has been hugely beneficial to the Japanese economy.

Domestically speaking, Abenomics is promoted to be supportive of small and medium enterprises (SMEs), boosting investment incentives and bringing in public spending on infrastructure projects. Moreover, Bank of Japan's expansionary monetary policy involving the purchase of 2000 billion yen of government bonds each month by the Central Bank has recapitalized the commercial banks. Yet, outlook for these plans may be less rosy as compared to 2013.

Clouding the outlook of Japanese economic growth could be higher consumption tax (VAT), which was brought higher to 8% from 5% by the government earlier on April 1, as an attempt to cut the budget deficit. Without higher wages, such measure should rein in household consumption, particular on discretionary spending. Moreover, there are also signs from the sentiment indices – Diffusion Indices – compiled by the Cabinet Office suggesting slowing optimism toward the economic situation in Japan. In light of such development, it could be of interest to Japanese officials to consider accelerating the execution of its third arrow – structural reform – to boost investment confidence and competitiveness; measures being considered could include reducing corporate tax rate, which is estimated at 35.64% for 2014 that ranks 3rd highest in the world just behind the 55% in United Arab Emirates and 40% in the United States while Asia's corporate tax rate was 22.49% in 2013.[12]

Consumption tax-hike casts worries



Source: CEIC, Coface

(12) KPMG website

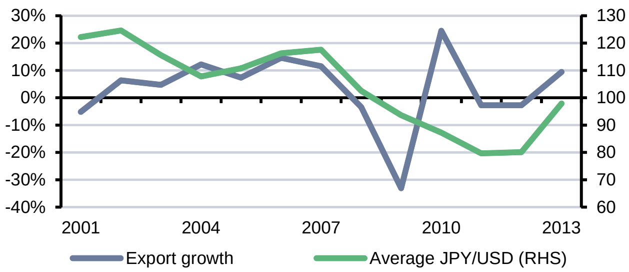
Nevertheless, these measures could be supportive to the economy that has set a 2% inflation target. The higher consumption tax would bring price level 2.86% higher, everything else being equal. Energy will also be contributing to the equation, as Japan will continue to import energy into the country as a replacement of the some 30% electricity needs previously supplied by the some 52 nuclear power plants in the country.

Besides strengthening domestic demand, the Japanese government is also trying to stimulate external appetite of Japanese goods and services, which would be sweetened by the weaker yen. The central bank has introduce measures to combat the yen's appreciation since PM Abe took office; Japan's major export companies – including those in electronic and telecommunications sectors – were the major beneficiaries.

In his visit to Japan in late-April, US President Barak Obama is reported to be actively bringing up issues related to Trans-Pacific Partnership negotiation, and was disappointed. The US – among the other countries in the negotiation – has urged Japan to open its market by reducing or removing import tariffs on agricultural products, highlighted by the over-700% on rice (¥402/Kg as of April 1, 2014).

Nonetheless, the yen's over-20% depreciation against the US dollar between November 2012 and April 2014 has given steam to exports. The slight rebound in European growth – which account for 12% of exports – together with faster US growth – accounted for roughly 18% of exports – point to a continuation of this upward trend in 2014. Subject to an abatement of the geo-political risks associated with the Diaoyu-Senkaku islands and the tensions with its main trading partner – China, which accounts for 20% of total trade – exports are expected to grow.

Weakened yen helped improve export competitiveness



Source: CEIC, Coface

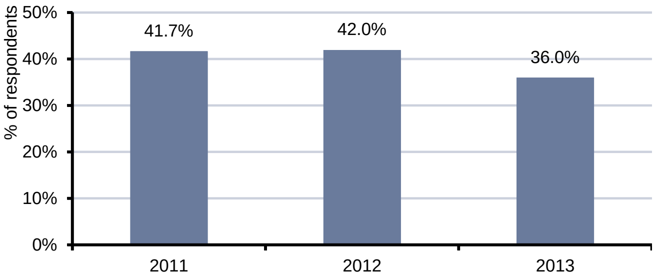
Japan: corporate payment experience

The responsible customers

Japanese corporates have, in general, extended shorter credit terms to their customers in 2013 comparing to previous years. 87% of the survey respondents from Japan shared with us that average credit terms was 90-days or below; such length of credit terms was reported by 84% and 79% of

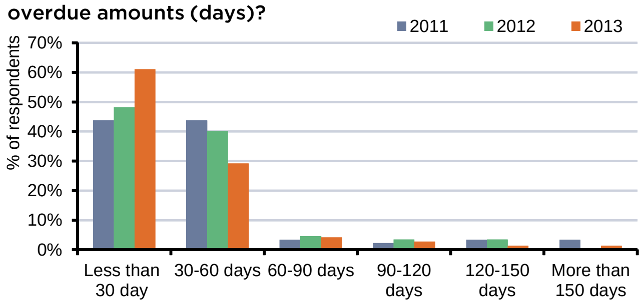
Japanese respondents in 2012 and 2011, respectively. According to the survey respondents, the occurrence of overdue situation among corporates in Japan has declined in 2013. Only 36% of the corporates we surveyed in Japan expressed that they have experienced overdue situation in the year, comparing to the 42% both seen in 2012 and 2011.

Companies experienced overdue payment in their sales during the last 12 months



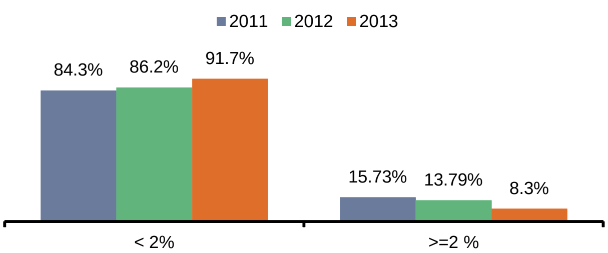
According to 94% of the Japanese corporates from the survey, their average overdue period was below 90-days; that indicate a slight improvement comparing to 2012 and 2011, when only 93% and 91% of the corporates indicated that they could retrieve the overdue amount within 90-days after the credit terms expired.

On average, how long are the above mentioned overdue amounts (days)?



The situation that long-term overdue payment weighing on companies' balance sheet has also become less common for Japanese corporations in 2013, comparing to previous years. Only 8% of the corporates shared the experience that long-term overdue (i.e. 180-day overdue) weighed more than 2% of their annual turnover; such finding was 14% and 16% in 2012 and 2011, respectively.

The ratio of aged overdue debts over 6 months as a percentage of your total annual turnover is :

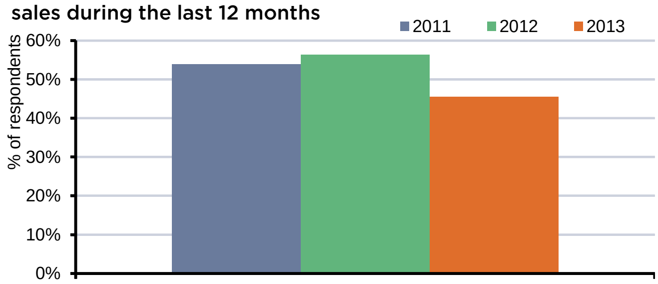


Japan's Fast-moving Consumer Goods (FMCG) sector

Bills settled

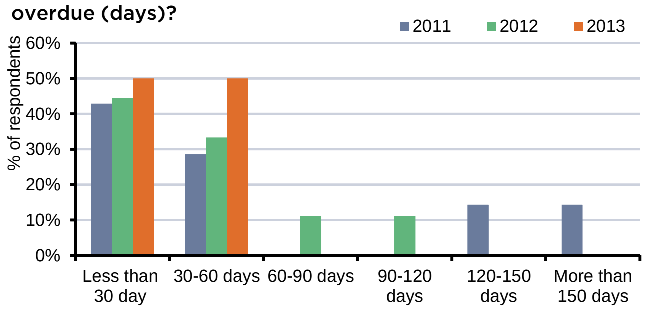
Average credit terms extended by the FMCG sector participants was 100% at-or-below 90 days for the third consecutive year. Comparing to previous years, a lower percentage of Japanese FMCG companies saw overdue situation in 2013. 45% of these industry participants shared with us in the survey that they have seen overdue situation in 2013; such figure can be compared to the 56% and 54% in 2012 and 2011, respectively.

Companies experienced overdue payment in their sales during the last 12 months



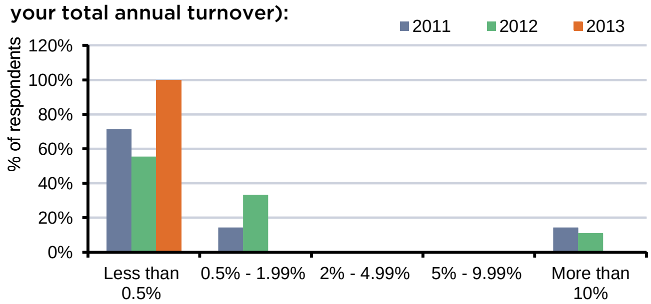
Such figure, combine with following trends, leads us to believe that retail industry participants in Japan have experienced an improvement in corporate payment experience. Average overdue period in 2013 stayed strictly at 60-days or below; such data points to slight improvement comparing to 2012 and 2011, when we saw 22% and 29% of respondents from the industry indicating that the average overdue period exceed such threshold.

On average, how long is the above mentioned overdue (days)?



Another point that confirms the positive development of the payment experience of the sector was the fact that 100% of survey respondents from the industry shared the experience that long-term overdue weigh less than 0.5% of the annual turnover. Such trend indicates to us that the Japanese retail sector, according to the survey result, faced no liquidity pressure coming from long-term overdue situations.

The ratio of overdue over 6 months is (in % of your total annual turnover):



« Box 1. Japan's retail sector to glow »

Assuming consumption hike will not deter recovery trend

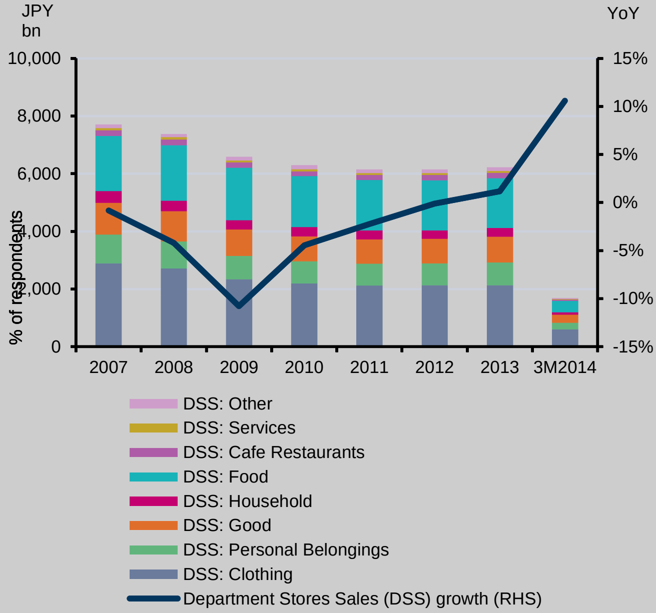
As suggested in the Japan economic highlight section, the consumption tax hike in April 2014 is clouding the Japanese economy. Coface's GDP forecast of 1.4% for FY2014 has taken a conservative estimate of weakened growth contribution from consumption. Nevertheless, as a result of the announced – and also much advocated – supportive fiscal and monetary stances, the recent consumption tax hike is likely to bring less-widespread negative impact to the Japanese economy, comparing to the result from the last rate hike in 1997.

On the fiscal side, signed off by the cabinet, a sizeable (¥5.5tn) supplementary budget is estimated to add 0.7% to economic growth in FY2014; and such increase is estimated to offset the negative impact from consumption tax hike. On the monetary side, Bank of Japan (BoJ) Governor Kuroda Haruhiko has started managing expectation since he was nominated by PM Abe to take the position by saying he'd do "whatever it takes" ("nandemoyaru") to tackle deflation, and he has also been extremely supportive of the consumption tax hike, albeit it is not the norm for central bankers to be so vocal on fiscal decisions.[13] Given such circumstances, the rest of this section is written based on the assumption that such consumption tax hike would not deter Japan's economic recovery trend.

Household expenditure grew at the fastest pace in more than 2 decades

While we are only in the first month since the post-consumption-tax-hike era, the expectation of the higher consumption tax did provide support to consumption in the first few months of 2014. As observed from the chart below, department store sales recorded the first positive year-on-year growth since at least 7 years in 2013, when it grew 1.2% YoY. With the well-anticipated consumption tax hike set on April 1, consumption growth accelerated quickly during the first 3 months of 2014, having grown 10.6% YoY during the period. Growth was particularly strong for goods, household products and personal belongings, which has seen 32.1%, 17.8% and 17.1% YoY growth during the same period.

Department store sales saw the first positive growth in a while

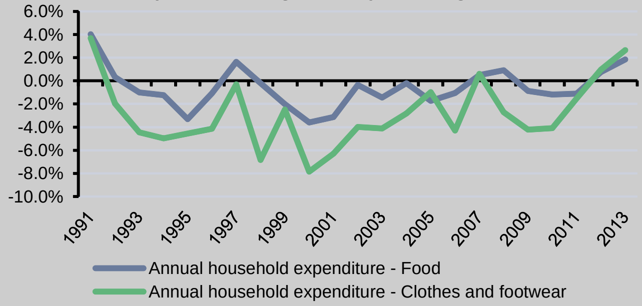


Source: CEIC, Coface

While it remains unknown if the rapid expansionary trend during the first 3 month in 2014 is sustainable, such long-awaited rebound in department-store spending, at least, shows that consumers are not less restrictive on the spending behavior to say the least. With the aforementioned ¥5.5tn supplementary budget and potential corporate tax cut, together with potential quantitative easy by the BoJ, further optimism could be injected into the consumers market in Japan.

Indeed, although the tax hike may have distorted the consumption behavior in the near-term, there may also be reasons why we can be relatively optimistic on the retail sector in Japan. In 2013, monthly household expenditure (MHE) grew at the fastest pace since 1991, when we saw MHE on food grew 1.9% YoY and MHE on clothes and footwear grew 2.7% YoY, respectively.

Household expenditure registered positive growth

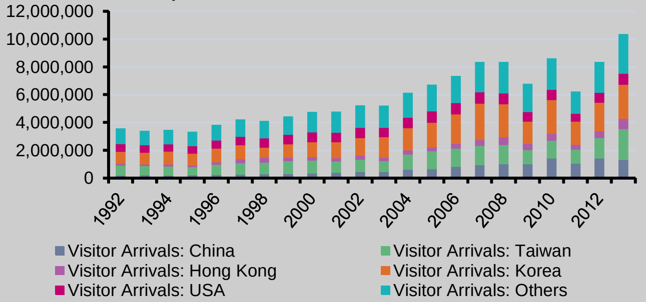


Source: CEIC, Coface

(13) Forbes (March 2013) With Kuroda Pledging to Do "Whatever It Takes" at BOJ, Abe Gets His Man

Looking beyond the consumption tax, there are still elements in the Japanese economy that support the retail sector in Japan. Besides increasing demand from the Japanese population, tourism could also play an important role in supporting the Japanese consumers sector. Total number visitors grew from slightly over 3.5 million in 1991 to 10.3 million in 2013, having grown 5.2% annually during the period. Among the various origins, visitors from China and Hong Kong grew at the fastest pace, having recorded 9.8% and 8.4% annually during the period; as of 2013, visitors from these economies accounted for 12.7% and 7.2% of total visitors, respectively. The sheer number as well as the growth in the number can translate into material impact on the consumers sector in Japan. According to Salsberg and Yamakawa (2010), average spending of Chinese visitors is estimated at US$1,300 to US$2,200.[14] With the growing middle class in Asia – and particularly in China – it is believed that Chinese travelers would be positive economic contributors to consumer sectors in the region.[15]

Tourism adds optimism to retail outlook



Source: CEIC, Coface

Weak wage growth will remain as the major headwind

Nevertheless, the retail sector in Japan is not facing zero headwind; concerns over the labor market heaviness stays on top of the list. While unemployment rate is at 3.6% as of the end of February compared to the average of 4.5% since the last consumption tax hike in 2007, the 58.8% participation rate is in fact lower than the 60.9% average over the same period, according to data compiled by the Statistical Bureau. What is more concerning is the earning ability of the Japanese workers. Using data compiled by the Ministry of Health, Labour and Welfare, average cash earnings of employees working in companies with more than 5 employees in 2013 is indeed at the lowest level since, at least, 1990. Using data with larger-sized companies (i.e. more than 30 employees) would suggest something similar; it suggests that average wage is 0.7% slight above the trough in 2009 in at least 24 years. Such trend has to reverse before a more dynamic consumption growth can be sought.

Low earnings remain the major drawback

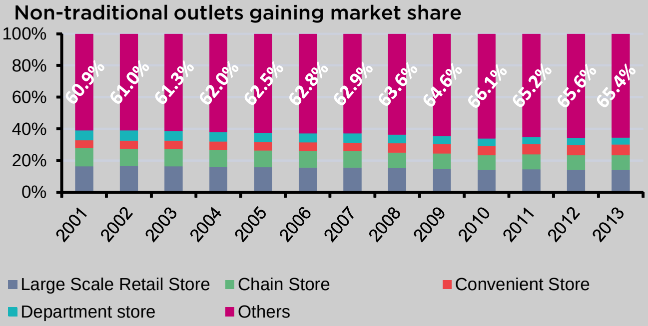
Source: CEIC, Coface

Longer-term prospects

The Olympic Games, scheduled to be held between July 24 and August 9 in 2020, could be a medium-term boost to the Japanese economy. Tokyo's winning bid to host the 2020 Summer Olympics was supported by 70% of Tokyo's population.[16] According to section 8 of Tokyo 2020 – Discover tomorrow, 11 new venues and 9 additional temporary venues will be created for the Games while other stadiums – some dated back to those created for the Olympics in 1964 – will be refurbished and upgraded.[17] Estimated by the government, the construction of such venues would cost some ¥409billion (ideally, mostly privately-funded), and such construction work would provide opportunities for the construction sector and transportation sector, which are set to directly benefit from the investment required for the infrastructure.[18] These developments would, in turn, release purchasing power through the creation of jobs.

Although we do lack time-series data on internet sales, there are evidence that internet purchase and online platforms would definitely have impact on consumption and the retail landscape. While aggregate level of retail sales has largely remained the same since 2001 (¥136.8trillion in 2001 vs. ¥138.9 trillion in 2013), non-traditional retail outlets – excluding large-scale retail store, chain store, convenient store and department store – may have gained market share over the period, and part of it should come from internet sales.

Non-traditional outlets gaining market share

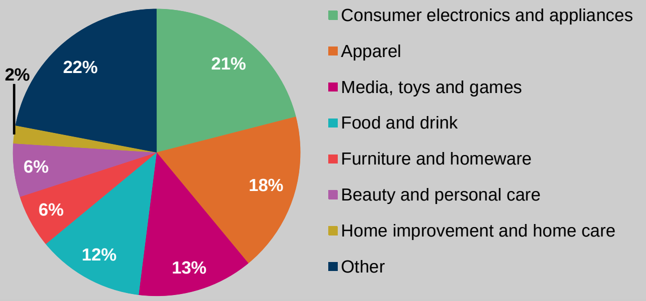


Source: CEIC, Coface

(14) McKinsey (July 2010) Japan's luxury consumer: Detecting a pulse?
(15) Coface (September 2013) Should-we-stake-everything-on-the-Asian-consumer
(16) Economist (September 8, 2013)
(17) Tokyo 2020 Olympic Games Candidature
(18) DLA Piper (September 2013) Tokyo 2020 Olympics Update

According to A.T. Kearney's Global Retail E-Commerce Index, Japan ranks 2nd among 30 developing and developed economies in terms of current status of online retail market development and potential growth.[19] It is suggested that Japan's online sales is accounted for US$52billion, and is expected to reach US$80billion in 5 years. Such growth could be supported by the some 79% population who are internet users in the country. Moreover, albeit the growth rate is slowing due to the high comparable base, mobile phone internet service subscriber still averaged 3.4% YoY growth between January 2013 and March 2014, and could add steam to the online sales landscape for the retail sector.

Breakdown of online sales



Source: A.T. Kearney

Both headwind (e.g. consumption tax, weak wage growth) and tailwind (e.g. higher household expenditure, strong tourism, and 2020 Olympics) persist for the Japanese retail market. With the improvement in credit payment experience and the supportive dynamics from Abenomics, the sector should tap the growth potentials in the medium-term, bearing in mind that the online-retailing could be a deciding factor for some business segments.

(19) A.T. Kearney (2013) Global Retail E-Commerce Index

SINGAPORE: SUPPORTED BY TOURISM, EMPLOYMENT AND GLOBAL RECOVERY

Country risk assessment		Business climate Assessment	GDP growth (%)	
January 2014	March 2014	2014	2013	2014
A1	A1	A1	4.0	4.0

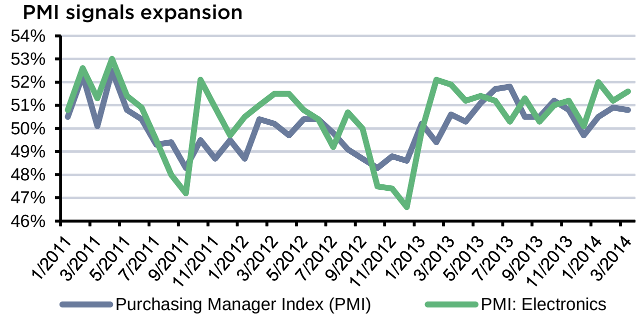
Source: Coface

After taking a dip in 2012, Singapore's economy picked up slightly in 2013, thanks to the strength of domestic demand led by higher government spending, which grew 13.3% YoY. While private consumption only grew 3.5% in 2013, for 2014, retail sales will be supported by solid household consumption as a result of 1.6% overall unemployment rate (as of December 2013) and strong growth in tourism. Number of visitors grew 6.9% YoY in 2013, with notable increase of visitors from China, which is now the second largest visiting-country (12.3% as of 9M2013) behind Indonesia. Such trend should be beneficial to the Singapore consumers market as the average spending per capita of Chinese visitors was SGD1338 in 2011, trailing only US visitors (SGD1403) and Swiss visitors (SGD1365) to the country, according to Singapore Tourism Board data.

While inflation had not been an issue in Singapore during the last year, it is expected the country will see slightly higher inflationary pressure, as cost push inflation could be resulted from higher wage increase than that 2.3% and 4.3% – according to data from Department of Statistics – seen in 2012 and 2013, respectively, due to the restrictions on the hiring of foreign workers. Nevertheless, observing from rental prices of private residential housing – dropped 0.6% YoY as of December 2013 – inflation pressure should remain under control for 2014.

Domestically speaking, services remain the key contributor to Singapore's economy, representing some 66.3% of the country's GDP. Nevertheless, although with a declining contribution to GDP, manufacturing activities remain important and represents 17.5% of the country's GDP. As we can see from the chart below, after seeing more than a year of weak data between July 2011 and early-2013, PMI suggests that manufacturing activities are seeing support as PMI readings have been consistently above 50 (except December 2013).

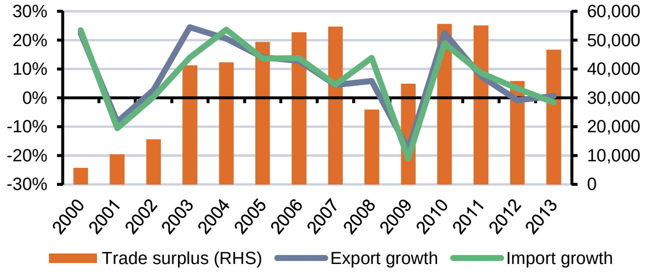
PMI signals expansion



Source: CEIC, Coface

Exports represent 191% of GDP, of which 9% of total exports goes to the European Union and 6% to the United States. With machinery and transport equipment being the single most important exported product in the mix (represented 45.3% of total exports), headline external demand growth is expected to accelerate in 2014 after turning positive (0.6% YoY) in 2013, as the recovery in the United States and the improved health of certain European economies. Nevertheless, the one specific factor that could lead to weakened competitiveness of its exports is the strength of the Singapore dollar.

Lackluster external demand dragged economic activities



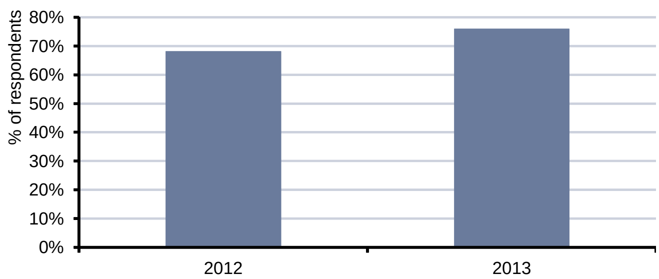
Source: CEIC, Coface

Singapore: corporate payment experience

Similar payment experience

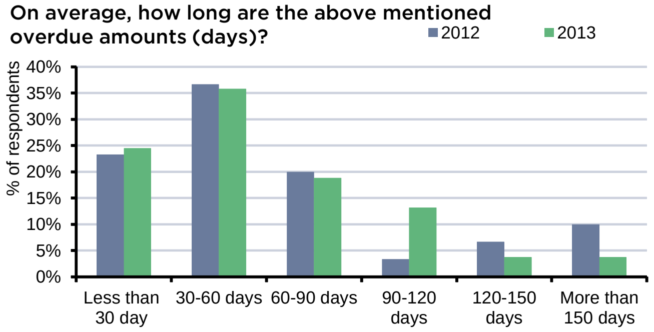
According to the payment survey conducted in Singapore, credit terms extended by corporates have increased slightly comparing to 2012; 5% of the survey respondents shared in their responds that the average credit terms was 120-days or above in 2013, comparing to the 3% as seen in 2012. When asked whether or not they have experienced any overdue situation in the last 12 months, 76% of the survey respondents said that they have faced such situation in 2013, comparing to the 68% in 2012.

Companies experienced overdue payment in their sales during the last 12 months



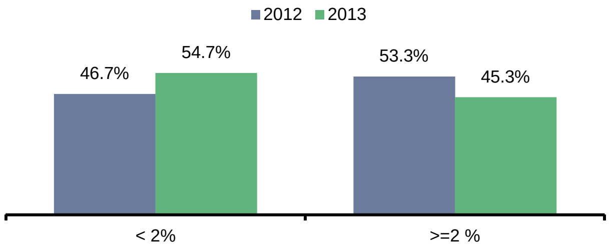
In 2013, 21% of the respondents said that the average overdue period exceeded 90-days, comparing to the 20% we got in 2012; much of the 21% respondents shared that the average overdue period ranged between 90 and 120 days (13%), while longer-than-150-days overdue contributed half of 20% in 2012.

On average, how long are the above mentioned overdue amounts (days)?



Among the others, based on survey results, we are relatively concerned about long-term overdue situation in Singapore. Despite seeing improvement comparing to 2012 when 53% of respondents shared with us that long-term overdue situation weigh more than 2% of their annual turnover, 45% of the respondents faced such issue in 2013.

The ratio of aged overdue debts over 6 months as a percentage of your total annual turnover is :



As an external-driven economy, Singapore businesses were negative impacted by lackluster economic momentum in Europe and the US. As Coface expects a steady recovery in the US and a slow-but-stable growth in selected European economies in 2014, Singapore's economic environment could see positive impact.

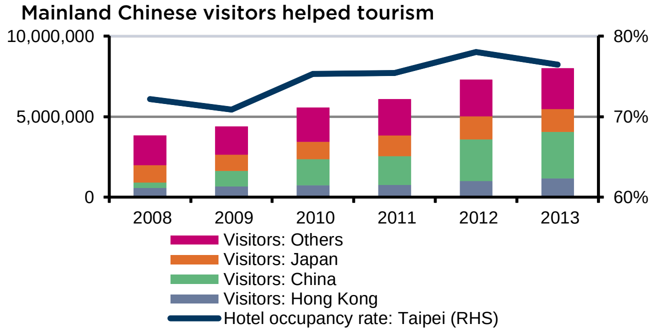
TAIWAN: EXTERNAL DEMAND TO DRIVE GROWTH

Country risk assessment		Business climate Assessment	GDP growth (%)	
January 2014	March 2014	2014	2013	2014
A1	A1	A2	2.1	3.0

Source: Coface

The Taiwanese economy is expected to see moderate growth in 2014. Despite the healthy state of the job market that sees low unemployment rate, household consumption stagnated in 2013, partly resulted from the virtually stagnant earnings ability of Taiwanese workers (+0.2% YoY in 2013 and +0.1% YoY in 2012). The weak income growth of Taiwanese workers would overshadow the small scale 5-year recovery plan introduced by the government in May 2013, which provides, in particular, incentives for buyers of new vehicles. While inflation will remain moderate despite the rise in electricity prices decided in September 2013 – as 85% of households were spared the price hike – the services sector shall see sustained support from the tourism, particularly the growth in number of visitors from Mainland China.

Mainland Chinese visitors helped tourism



Source: CEIC, Coface

After picking up slightly in 2013, Taiwanese export growth is expected to accelerate in 2014, as a result of the improved economic situation in the advanced economies, specifically the healthy state of the American and Japanese economies and the slight recovery in the eurozone. More than half of exports are directed to these economies, with some of the exports to Mainland China indirectly linked to demand from the US and Europe via re-exports. The semi-conductor sector will be the most dynamic in the near-term, driven by the demand for tablets and cellphones, but further development of the sector should be positioned carefully, as China is slowly moving up the value Chain (see **Box 2** below).[20]

While greater cooperation with Mainland China should continue to grow under the development of the Economic Framework Cooperation Agreement (ECFA), the idea of signing Cross-Strait Services Trade Agreement (CSSTA) has brought as many as 500,000 people going on the street to join the protest in March 2014. While the CSSTA aims at liberalizing existing business practices and lifting trade restrictions between the Mainland Chinese and Taiwanese economies – with China opening up a total of 80 sub-industries for Taiwanese investors and Taiwan set to open up 64 industries for the Chinese counterparties – the Sunflower movement, as it is coined by the protestors, worried that some industries or business segments would be marginalized. Chung-Hua Institute for Economic Research published in a report in July 2013 that it estimated such trade pact would only increase 0.025% and 0.034%, while impacts on trade and other aspects would also be limited.[21] Development of such trade pact is by no means confirmed as of the completion of this report, and it will be monitored going forward.

<u>Estimated impact of CSSTA</u>

		Initial value US$m	Change US$m	Change in %
Impact on real GDP	Taiwan (TW)	394,587	97-134	0.025-0.034
	China (CN)	3,509,068	123	0.004
Impact on trade in services	TW exports to CN	1,080	401.81-401.88	37.19-37.20
	CN exports to TW	1,011	91.70-91.78	9.07-9.08
Impact on service exports	TW total exports	23,539	377-378	1.60-1.61
	CN total exports	116,844	93	0.08
Impact on service imports	TW total imports	20,851	61-63	0.29-0.30
	CN total imports	100,528	218	0.22

Source: Chung-Hua Institute for Economic Research (2013)

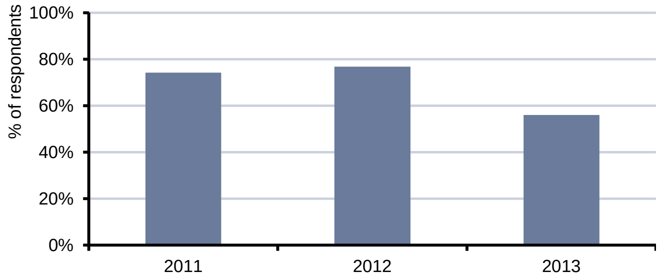
Taiwan: payment experience

Fewer, but longer, overdue

Average credit terms extended by Taiwanese firms in 2013, as shown in the survey result, shows that credit terms practices remained largely stable comparing to a year ago. 89% of the respondents told us that average credit terms their companies extended were 90-days and below, comparing to the 88% who told us so in 2012. Overdue situation, however, became less common in 2013, when only 56% of the respondents shared with us that they have experienced overdue situation, comparing to the 77% as seen in our 2012 survey.

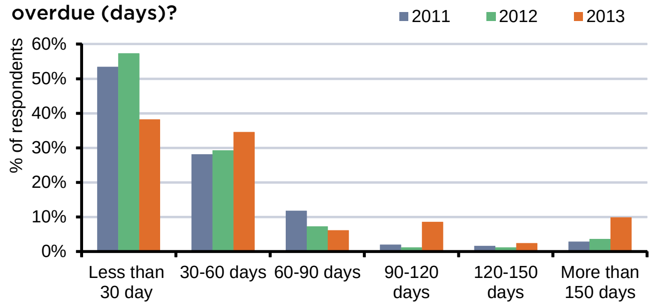
(20) Coface (April 2014) New Paradigm for the Electronics Inudstry in Asia
(21) Chung-Hua Institute for Economic Research (July 2013)

Companies experienced overdue payment in their sales during the last 12 months



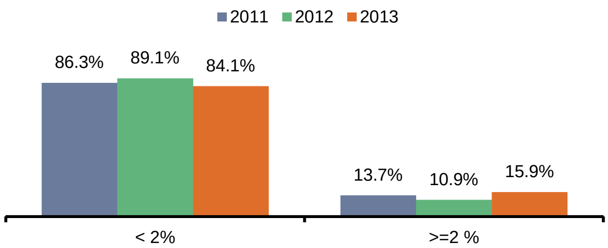
While overdue has become less common during the year, when it happened, average period of these overdue payments that Taiwanese firms faced extended in 2013. 14% of the companies shared the view that the average overdue period lasted 90-days or longer in 2013; such situation was only reported by 7% of the respondents a year ago.

On average, how long is the above mentioned overdue (days)?



As reflected in the responses from companies who saw overdue situation during the year, long overdue situation has seemed to weigh in. according to 16% of the respondents, the long-term overdue (i.e. overdue that is over 180-day-old) weight more than 2% of the annual turnover; only 11% of those companies faced such situation in 2012.

The ratio of aged overdue debts over 6 months as a percentage of your total annual turnover is :



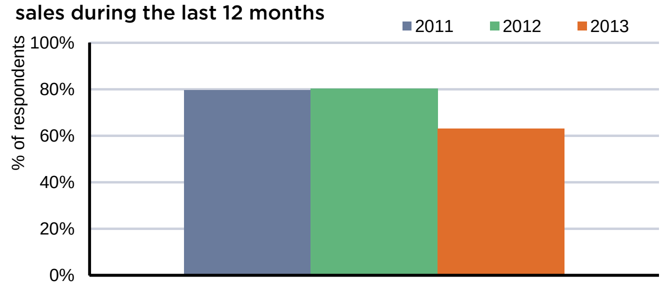
These trends indicate to us that, while overdue situation happens to a lower percentage of companies in the Taiwanese economy comparing to a year ago, when it happens, the situation tends to be more troubling for companies as the average overdue period of these amounts tends to last longer, comparing to a year ago.

Taiwan's industrial machinery & electronics sector

To watch out for long-overdue

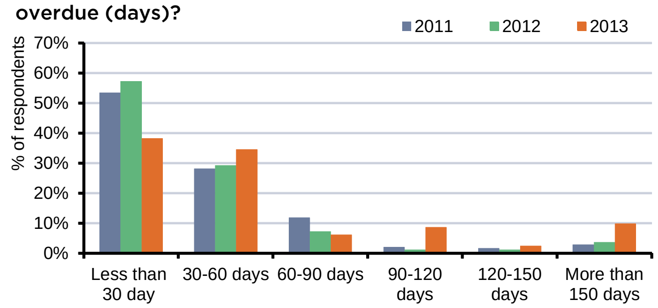
In 2013, the average credit terms extended by Taiwanese industrial machinery & electronics sector participants was largely the same as 2012, with 83% of the survey respondents sharing with us that the average credit terms was 90-days or below (84% in 2012). 63% survey respondents from the industry has faced overdue situation in 2013, representing quite a sharp decline from 2012 when such situation was reported by 80% of the survey respondents.

Companies experienced overdue payment in their sales during the last 12 months



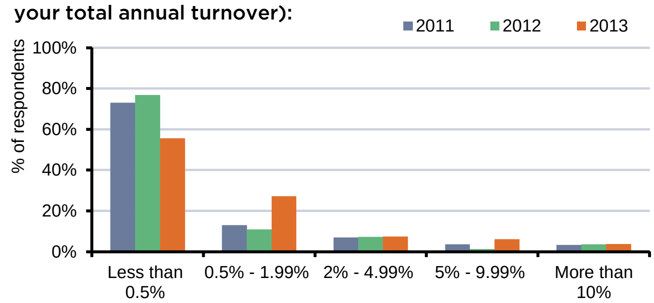
On average, the overdue these Taiwanese industrial machinery & electronics sector participants faced have generally extended comparing to a year ago. 21% of these respondents shared with us that they have faced average overdue period longer than 90-days, comparing to the 6% as reflected from the 2012 survey. What is more noteworthy is that 10% of these respondents have shared the view that the average overdue period was more than 150-days. Bearing in mind that long-overdue (i.e. 180-days old) usually has an 80% chance to turn into bad debt, such situation was not the most desirable outcome.

On average, how long is the above mentioned overdue (days)?



In line with what is suggested in the trends above, 17% of the survey respondents shared with us that long-term overdue weighed more than 2% of their annual turnover; such situation was only reported by 12% of the respondents in 2012. Such situation has to be monitored closely in 2014 as some of these companies may be seeing rising competition from external economies.

The ratio of overdue over 6 months is (in % of your total annual turnover):



« Box 2. Changing landscape and hiking risk for Taiwanese electronic sector in the medium term »

Evolution of the Taiwanese electronic sector

According to Weiss and Hobson (1995), Taiwanese local manufacturers started from supplying various components of different products to the West, and were later pushed – by market force and demand of customers – to move up the value chain by getting involved in the high value-added design process.[22] These Taiwanese manufacturers would also be asked to be responsible for other business activities, ranging from purchasing, to assembly, and supply chain organization.

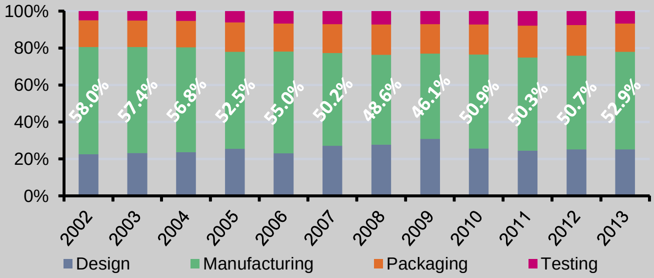
While these manufacturers were hoping to utilize such process – with information and knowledge sharing from their customers – to upgrade their company into original brand manufacturers (OBMs), it was suggested by Sturgeon and Kawakami (2010) that only very few had successfully transformed their companies into OBMs, as they would be competing directly with their big-in-size and powerful customers. It is suggested by the author that such potential competition with their customers would essentially ruin their supplier-customer relationship and risking the future orders. Such constraints and worries have led to most of the Taiwanese suppliers to stay in the capacity of expanding their comparative advantage (i.e. manufacturing know-how), while slowly gaining pace in other areas (e.g. design functions and supply chain organization).

At the same time, as an attempt to answer customers' request to push cost lower, Taiwanese firms started to expand their footprint into mainland China. While numerous studies by academics have suggested that the rise of Chinese exports is hurting prospects of exporters from its Asian peers (Eichengreen et al., 2007[23], and Roland-Holst and Weiss, 2004[24]), we believe this had not been the case in the previous decades.

According to Sturgeon and Kawakami (2010), original design manufacturing (ODM) – consisting of manufacturing plus design functions – headquartered in Taiwan, with manufacturing now concentrated in China. Taking personal computer as an example, according to Sturgeon and Lee (2005), while design functions need some expertise, due to the generic functionality needed in the manufacturing process, these original equipment manufacturers (OEMs) required less-skillsets. Such requirement was likely the main reason why OEMs could success in China, where there was abundance of low cost labor.

Data provided by the Taiwan Semiconductor Industry Association does support such trend. From the chart below, we can see that the trend of industry revenue coming from manufacturing functions of integrated circuit dropped from 58% in 2002 to 46.1% in 2009, before picking up to 52.9% in 2013. On the flip-side, from the trough seen in 2002, industry revenue from design functions continued to rise from 22.6% to 30.9% in 2009, before declining to 25.2% in 2013. Such trend suggests to us that the Taiwanese semiconductor industry has continued to gain from the higher value-added activities before 2009.

Manufacturing activities gained share in semiconductor industry

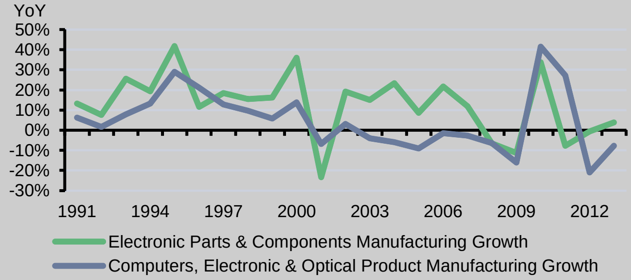


Source: CEIC, Coface

Non-zero-sum game during the last two decades

While Taiwanese electronic industry continued to focus more on design, the involvement of Chinese firms in the production of electronic products does not mean the end of Taiwanese firms' participation. Manufacturing activities of electronics-related industries remain as a key component of the Taiwanese economy.[25] As of the end of 2012, such manufacturing activities represented 12.7% of the island's GDP, compared to the 6.3% in 1992. One also has to be reminded that, even with the rise of Chinese manufacturing sector, not all the manufacturing activities have been shipped abroad. As illustrated in the chart below, growth of electronic parts & component manufacturing activities were constantly at double-digit level, while manufacturing activities related to final products of computer, electronic & optical products have gone through a sustained period of negative growth.

Manufacturing activities will face fierce competition



Source: CEIC, Coface

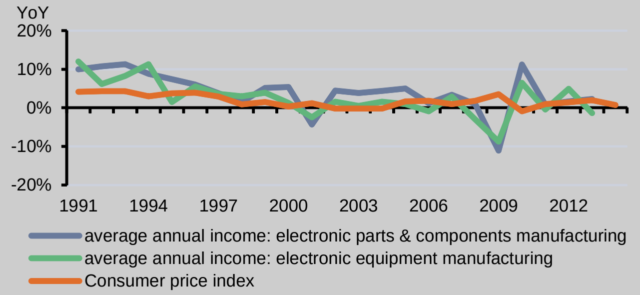
(22) Weiss, Linda, and John Hobson (1995) "States and Economic Development"
(23) Eichengreen, B. J., Rhee, Y. and H. Tong (2004) "The impact of China on the exports of other Asian countries"
(24) Roland-Holst, D. and J. Weiss (2004) "ASEAN and China: Export Rivals or Partners in Regional Growth?"
(25) To refrain our we research, we are taking a look at only 4 specific products: i) electronic parts and components, ii) computers, electronic and optical products, iii) electrical equipment, iv) machinery and equipment

With this observation, it could be suggesting that Taiwan has essentially climbed up the value chain and focus on earlier parts of the electronics value chain. In other words, the upstream (e.g. electronic parts and component sector) activities are being kept in Taiwan – despite the rise of China's manufacturing activities during the same period – while the low-value added assembly activities were shifted to China. It is, thus, debatably that it has not been always a zero-sum game when it comes to demand of electronic products from Taiwan and China.

Workers in the sector were hurt most

Such point of view would not be agreed by workers in the electronics manufacturing sector, however. For the two decades between 1993 and 2013, average annual income for workers in the manufacturing sector in Taiwan only grew marginally. Average earnings for the workers in electronic parts & components and electronic equipment only grew 3% and 1.5% on an annual basis, only marginally higher than the average inflation – in terms of consumer price index – that grew 1.4% YoY during the period.

Close-to-zero wage growth could fuel disputes



Source: CEIC, Coface

Electronics sector will need to position for challenges ahead

Despite that fact that Coface expects external demand of electronics products – particularly that from advanced economies – will rebound in 2014 with more vibrant economic activities in those countries, outlook for the Taiwanese electronics sector could remain bleak.

On one hand, the Taiwanese electronics sector will be facing hiking pressure from Chinese going forward as a result of the Chinese firms' intention to move up the value chain and by exporting products with higher technology-content. Such exogenous factor is, from Taiwan's perspective, uncontrollable. Thus, Taiwanese electronic firms have to decide whether or not they would continue to go upstream (e.g. design), mid-stream (e.g. manufacturing) or downstream (e.g. post-sales services).

A constraint for Taiwanese firms to go downstream is that post-sales services would usually require proximity to market, and that may not be viable if industry participants are thinking domestically. Unlike the Chinese domestic market (i.e. 1.3 billion population), or the Korean domestic market (i.e. 50 million population), Taiwan's domestic market (i.e. 23 million population) is relatively small and it will need to rely on external market for consumption.

Moreover, unions and workers in Taiwan continue to push for higher wages. While wages in the manufacturing sector has been quite stagnant in the last two decades as illustrated above, the average earnings of manufacturing workers in Taiwan NTD524,499 in 2012 (NTD526,132 in 2013), equivalent to RMB112,382 was still significantly higher than the average wages of RMB47,367 for manufacturing workers in state-owned enterprises or the RMB28,215 paid by private enterprises as of the end of 2012. Businesses usually tend to minimize cost, where possible; and the fear of more jobs being driven to lower-cost countries could be one of the key reasons to why hundreds of thousands of protestors went on the street to show their opposition against the CCSTA.[26]

While there is no crystal ball for us to tell what will happen next, the aforementioned factors, combined, are clouding the Taiwanese electronics sector. The deteriorated payment situation the sector faced in 2013 could be a result of the bleak global economy and the mounting competition both domestically and internationally. While the emergence of China as an electronic assembler in the last two decades did not particularly hurt the sector in Taiwan – except for the workers who did not see much wage growth – the next wave of impact as a result of China's intention to climb up the value chain would be vast.

(26) Wall Street Journal (March 2014) Thousands Protest Taiwan's Trade Pact With China

4 / CONCLUSION

From the hawk's-eye view, Asia's economic growth momentum remained strong in the post-crisis era, with Asian Development Bank's most recent forecast pointing to a 6.2% and 6.4% YoY growth for 2014 and 2015, respectively[27], while Coface expects Emerging Asia to grow 6.1% in 2014. Such momentum partly came from the dividend from economic bloom of the 2 biggest emerging markets, China and India, during the past decade. However, with growth outlook of these two countries (China 2014 growth forecast: 7.2%; India 2014 growth forecast: 5%) notably lower than the long-term growth trend – average growth of 10.6% in China and 7.8% in India between 2000 and 2011 – these economies are by no means not facing zero headwind, and businesses in these economies may need to form different sets of strategies heading into such waves of change.

For businesses practitioners, one of these challenges is to keep the growth momentum going while not losing their assets on bad debts; but the task would not be easy. Due to the "developing" nature of the Asian economies, insolvency data is very difficult to come by to say the least. As a result, we used the annual payment survey result in this report to chip in as a dimension when we look at the economic situation in these economies.

For Asia as a whole, roughly 68% of the respondents told us that they have faced overdue situation in 2013 (compared to 67% in 2012) and overdue situation has moved slightly toward the long-end. Moreover, while only 30% of the respondents shared that long-term overdue (i.e. at least 180-days) has weighted more than 2% of their annual turnover in 2013, signaling an improvement compared to the 37% respondents in 2012. Such results point to a stabilized corporate payment experience in Asia in 2013.

Nevertheless, we did find from the survey that there were different credit experiences in different economies.

For the Australian economy, we saw from the survey result that overdue situation did happen to more survey respondents, while such overdue situations did tend to last longer comparing to a year ago. Such view was well-supported by the findings as shown by the construction sector in Australia. With weakening resources demand growth from China – the biggest export destination accounting for 30% of total exports – and the sustained high savings rate and lackluster investment sentiment, there are certain challenges to the Australian economy ahead.

Economic growth of the Chinese economy has slowed and is expected to further decline to 7.2% YoY in 2014 – compared to 7.7% in 2013 and 7.4% in 1Q2014. Yet, the Chinese government is using fiscal and monetary tools to ensure that growth would not derail too much from the growth trend. With the recently announced RRR cut for rural financial institutions and the supportive policy on clean-energy investment, an above-7% GDP growth will be materialized. Nevertheless, the worsened corporate credit payment experience – especially so for the electronics sector – remains as a major concern, and is expected to continue to spook business sentiment in 2014.

Economic activities in Hong Kong are expected to remain stable for 2014. The overall corporate payment experience, as suggested by the payment survey, shows improvement in 2013 and such trend is confirmed by the textile-clothing industry, which should continue to see support coming from external demand growth due to the much-anticipated economic recovery in the US and selected European economies. Domestic drivers – consumption and investment – will be stable but should not see aggressive growth, due to the high base effect as well as the anti-corruption scheme in China that would cut luxury consumption by Chinese tourists.

India was the headline story in 2013 due to the rapid depreciation of rupee and the stubbornly high inflation, but the worst should be behind us. Suggested by the payment survey, companies in India have, in fact, faced slightly improved corporate payment situation in 2013 comparing to a year ago, while overdue situation happened to a higher percentage of survey respondents. Nevertheless, according to results from the payment survey, companies in the IT/ISP and data processing sector did, however, see some improvement in payment experience. As for 2014, India catches the world's attention with its 9-phase general election, which is large in scale, and is impactful; and no doubt it would lead to an increase in social spending, which will not be helpful in reducing the budget deficit in the country.

Prime Minister Shino Abe's economic recovery plan in Japanese has gained popularity both domestically and internationally. Such effect has, perhaps, improved the corporate payment experience in the country as observed by the result, with obvious decline in occurrence, length, and weight of long-overdue recorded. Yet, with the first two arrows (fiscal and monetary stimuli) of Abenomics being shot and received positive knee-jerk reactions, the third arrow (structural reform) is longed for and would be needed for further optimism.

The recent consumption tax hike in Japan – first since 1997, and it brings consumption tax from 5% to 8% – is expected to push inflation up by 2.86%, with other things being equal. While worries are casted over such tax hike and a repeat of 1997-situation would come, such worst-case scenario is rather unlikely due to the supportive fiscal and monetary stances, higher household expenditure, and the 2020 Olympics. FMCG sector – which saw good payment experience, both in absolute and relative term – should benefit from growth in their downstream customers (i.e. the retail sector).

Singapore's economy is expected to see growth pickup in 2014, due to various factors. Higher consumption supported by the strength of tourism, external demand recovery from developed markets,

(27) Asia Development Bank (April 2014) Asia Development Outlook

stabilized housing market, and the stronger manufacturing momentum will be supportive of the economy's growth. With such improvement, it remains hopeful that the payment experience of Singaporean corporates will see improvement in 2014, while 2013's situation was largely similar to the 2012 situation.

The Taiwanese economy is expected to see moderate growth in 2014, supported by the strength of tourism and external demand recovery from the developed markets. Internal demand, particularly consumption, will remain sluggish due to the lackluster wage growth situation across all sectors. Suggested by the payment survey, although overdue situation has become less common among Taiwanese corporates in 2013, the overdue period tended to go longer comparing to a year ago and more respondents showed us that long-term overdue weighted more than 2% of the annual turnover.

Comparing to the general economy, the electronics sector in Taiwan may be facing even more pressure going forward – particularly in the medium-term – and it is essential for businesses to find its positioning. 21% of the companies – if they saw overdue situation – said that their average overdue period was longer than 90-days in 2013 (6% in 2012), while 17% of them said that long-overdue situation weighed more than 2% of the annual turnover (vs. 12% in 2012). Going forward, more pressure is set to come from the fact that China is moving up the value chain. With absolute disadvantage against China on labor cost, it is hard to imagine Taiwan to boost the manufacturing sector for the electronics sector – which has been the case since 2009. Moreover, as high value-added downstream process (e.g. post-sales services) would usually require proximity to market, the Taiwanese sector would lose out to the peers in China, Japan and Korea, where population is significantly larger.