Press Release

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Euler Hermes: Why Brazil & Co. suffer from Chinese flu

- Weaker growth in China impacts its Asian neighbors – and most of Latin America as well
- In the last 15 years trade between Latin American countries and China has increased 20-fold
- China a major investor and bankroller – especially in countries that find it hard to obtain credit on the global financial markets

PARIS – 8 MARCH 2016 – Following a 25% increase in China bankruptcies in 2015, insolvencies will increase 20% in 2016, predicts Euler Hermes, the worldwide leader in trade credit insurance. This has implications not only for the "Red Dragon" itself but also for its trading partners. Industrial countries have a relatively robust immune system compared to many emerging markets. But "Chinese flu" is spreading in some of these latter countries, due to a strong and direct impact on supply chains of Chinese manufacturing companies. The China virus is escalating mainly in neighboring countries such as Hong Kong, Singapore and Taiwan, but also in South Korea and especially in Latin America: Argentina, Brazil, Ecuador, Venezuela, and to some extent Chile.

The leap across the Pacific: Brazil & Co. are suffering from Chinese flu
"Chinese flu's leap across the Pacific may seem surprising at first glance, but in fact China is one of Latin America's biggest trading partners," said Ludovic Subran, chief economist at Euler Hermes. "In the last 15 years alone, trade between Latin American countries and China has increased 20-fold. Moreover, China aims to double the current figures and achieve a bilateral trade figure of around USD 500,000 million in 2019."

China is a key investor and bankroller in various Latin American countries
China invests heavily in Latin America. Primary industry is the focus of 90% of all Chinese investment, as well as infrastructure and logistic projects such as a railway to the Brazilian and Peruvian coasts. Its purpose is to transport agricultural, energy and mining products quickly and easily inland, and then ship them to China.

For some Latin American countries that find it hard to obtain credit on the global financial markets, China is also an important bankroller. The slowdown in China's growth thus has a triple impact on Argentina, Ecuador and Venezuela.

Brazil: China is the samba nation's main trading partner
China is Brazil's single most important trading partner: 20% of Brazilian exports go to China and 17% of its imports originate there. If China's growth weakens further, the knock-on effects will be felt immediately in the samba nation.

"Many of Brazil's problems are of its own making however," explained Subran. "Brazil is in the middle of a recession and this will continue in 2016. Its current internal political problems are being exacerbated by the global economic situation and slower growth in China. This is also clear from the bankruptcy trend: in 2015 bankruptcies were already up by a quarter, as they were in China, and in 2016 the failure rates in China (+ 20%) and Brazil (+ 18%) should be strikingly similar."

It doesn't stop there for Brazil however - as a Mercosur country, Brazil is an important hub for trade in South America and thus subject to a knock-on effect from other countries.

Chile, Peru, Venezuela: highest export dependency on China, price fluctuation risk
China accounts for around a quarter of Chile's exports. Along with Peru (also 25%), Chile is the most dependent on China for its exports, ahead of Venezuela (22%). The situation is exacerbated by the risk of price fluctuations, as exports are primarily concentrated in only a few products: soya in Argentina, metals in Peru and copper in Chile. Their prices have already fallen sharply in recent years on the back of weaker growth in China, seriously impacting the export economy of these countries.

Triple shocks for Argentina, Ecuador and Venezuela
The effects of Chinese flu are hitting hardest in Argentina, Ecuador and Venezuela. These countries are suffering a triple shock: exports to China are falling, commodity and particularly oil prices are at their lowest level for years, and the countries are heavily dependent on China for financing.

If the Red Dragon coughs, Latin America falls ill too
“Latin American country revenues are falling along with exports. China’s restrictive financial policy puts foreign financing on very shaky ground. Argentina, Ecuador and Venezuela are having difficulty obtaining money on the global financial markets. As China’s interest in investing or financing in these countries wanes, their problems intensify disproportionately and the risks increase due to their high dependency on the Red Dragon. If it falters, they falter too," concluded Subran.

Recent study on China, "6 reasons for MONKEY economics in China this year":
http://www.eulerhermes.com/mediacenter/Lists/mediacenter-documents/Economic-Insight-6-reasons-monkey-economics-china-fev16.pdf

Study on China’s economy "China: Great Wall, Great Mall, Great Fall? Not really…":
http://www.eulerhermes.com/mediacenter/Lists/mediacenter-documents/Economic-Insight-China-Sept15.pdf

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Contacts:

Euler Hermes Group Media Relations
Remi Calvet +33 (0)1 84 11 61 41
remi.calvet@eulerhermes.com

Publicis Consultants
Romain Sulpice +33 (0)1 44 82 46 21
romain.sulpice@mslfrance.com

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