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The University of Tennessee Knoxville
Global Supply Chain Institute

CSCMP Council of Supply Chain Management Professionals
Educating and Connecting the World's Supply Chain Professionals.™

IHS Markit®

EPIC Global Supply Chain Risk Assessment

March 2020

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The IHS Markit Strategic Sourcing Risk Model offering leverages our proprietary data and forecasts from across the IHS Markit enterprise. The breadth and variety of our proprietary datasets inform multiple dimensions of strategic sourcing and supply chain risk:

- Current risk exposures
- Decision support for where to establish cost-effective, stable, and reliable sourcing relationships
- Where to establish sourcing relationships at a category and product level by identifying mature, nascent, and product-adjacent sourcing markets

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Since 1963, the Council of Supply Chain Management Professionals (CSCMP) has been the preeminent worldwide professional association dedicated to the advancement and dissemination of research and knowledge on supply chain management. With CSCMP members located around the world representing nearly all industry sectors, government, and academia, CSCMP members receive unparalleled networking opportunities, cutting-edge research, and online and on-site professional educational opportunities. To learn more, visit cscmp.org or follow CSCMP on social media: Twitter, Facebook, LinkedIn and YouTube.

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The Global Supply Chain Institute (GSCI) at the University of Tennessee, Knoxville, shapes and influences the practice of supply chain management by serving as the preeminent global hub for leading practitioners, academics, and students to learn, network, and connect. With the largest assembly of corporate partners of any university-based supply chain management program, more than 1,200 students studying the subject, and the top-ranked faculty globally for supply chain research, UT's GSCI is shaping the practice of supply chain management. Please visit http://gsci.utk.edu/ or follow us on LinkedIn, Twitter or Facebook for more information.

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Introduction

Global supply chains power the world. From the medicines we need, to the cars we drive, to that strange present your uncle gave you for your birthday. All of these products start with raw materials processed through an often-complex global supply chain until they reach the consumer. Regardless of how brilliant the product design, engineering, and marketing, the consumer will be disappointed if the supply chain is not able to deliver that brilliant product in good condition when and where it is needed. Supply chain professionals are the conductors of this globally dispersed orchestra of trucks, planes, trains, ships, and facilities allowing firms to deliver on their promise to customers. However, unlike a symphony orchestra, the supply chain conductor must deliver consistent results while the orchestra is constantly in flux.

Managing this constant change is all in a day's work for supply chain professionals, but success doesn't happen without thoughtful planning. Understanding the potential risks in your global supply chain requires knowledge of both industry changes as well as macroeconomic, political, and social issues. For example, if you're in an industry that manufactures aircraft parts or technology products with lithium-ion batteries, your supply chain probably begins with sourcing the raw material cobalt. Consequently, it's important to know that over 60% of the global cobalt supply comes from the Democratic Republic of Congo (DRC), which is known for its human rights abuses and lax child labor laws. Understanding the risk associated with this raw material source is the first step to ensuring continuity of supply.

Through the ongoing development of the field of supply chain management, professionals have become more attuned to the criticality of factors such as risk and readiness to a successfully managed supply chain. For example, the 2019 Third-Party Logistics Study sponsored by Penn State University, Infosys Consulting, and Penske Logistics highlighted the importance that shippers and third-party logistics providers (3PLs) place on supply chain risk mitigation and that this risk is much higher than it was five years ago.[1] This is no easy task as supply chain risks for any company come from different areas and are becoming increasingly complex as companies get larger and more vulnerable. Common causes of risk are disruptions and delays due to increased transportation cost, damage, unexpected returns or failure to sell, inventory issues, network disruptions, and supplier issues, including high cost or loss of supplier. In addition, broader non-business-related disruptions can be caused by natural disasters or geopolitical issues. Some of the major concerns highlighted by shippers and carriers at the Council of Supply Chain Management Professionals (CSCMP) 2019 EDGE conference were:

- Brexit in the UK
- Reliability and capability of small suppliers
- The trade war between the US and China
- Natural disasters and their impacts on coastal areas and supply chains in general
- International Maritime Organization (IMO) 2020 sulfur regulation and oil cost increases in general
- Labor shortages in the European Union

Of course, this list of concerns is not static and can vary considerably by company and context. If your supply chain includes France, then social unrest from pension reform or fallout from the recently imposed digital services tax may be your issue du jour. Brazil and India will likely struggle with structural reforms creating additional uncertainty around investments. Rising protests over social inequality and economic

1. http://www.3plstudy.com/3pl2019download.php

austerity programs may impact supply chains across Latin America, North Africa, and the Middle East. In Europe, Brexit may not cause too much uncertainty in 2020 as the UK remains in the EU single market in 2020; but longer-term may be an issue. Additionally, some supply chain threats know no border. According to the 2019 Supply Chain Resilience Report authored by the Business Continuity Institute,[2] unplanned IT and telecommunications outages accounted for 44.1% of all supply chain disruptions in 2019. Which future threats will play disruptive roles in global supply chains is not clear. What is clear is that we're living in a VUCA (volatile, uncertain, complex, and ambiguous) world.

Coronavirus disease 2019 (COVID-19) disrupting global supply chains in 2020 is a stark example of this VUCA world. Companies that rely on China for all or part of their manufacturing are most vulnerable, but the "bullwhip effect" from both plant closures and reduced consumption will ripple far and wide. Car manufacturers such as Fiat Chrysler and Hyundai shut down production lines, and companies from Apple to P&G have lowered profit expectations. As of this writing, COVID-19 is still evolving, with new cases in mainland China on the decline but global cases on the rise. Public gathering places from the Louvre in Paris to schools in Seattle have been shut down, and travel restrictions around the globe are hampering global commerce. The resilience of global supply chains is being tested. Supply chain leaders are being tested. Our view at the University of Tennessee is that if you prepare for what is known, you will be in a better position to react to what is unknown. It is in that spirit that we put together this EPIC report.

The EPIC report provides thorough but succinct assessments for 64 countries enabling informed trade-off decisions about which countries will be part of your future supply chain. Just as it has been since the original China Silk Road ceded economic power to Europe in the middle of the 18th century and Europe to North America after World War II, global power is continuing to shift. However, unlike previous generations, the global economy has become inextricably connected. Knowing the current strengths and vulnerabilities of the countries in this report as well as the geography-spanning issues can help supply chain professionals become master conductors of their globally dispersed orchestra of planes, trains, ships, and facilities. Getting this right creates the greatest music a supply chain professional can hear, the sound of happy customers.

The purpose of this report

The goal of this report is to provide information about supply chains in each region in the world, identifying their unique characteristics, to help the decision maker arrive at more informed decisions. Managers of global supply chains can use the framework developed in this report to help them assess their supply chain strategies, identifying the strengths, weaknesses, opportunities, and threats of the different regions in the world. This framework is termed the EPIC structure.

The EPIC structure

The EPIC structure provides a framework for assessing 64 countries in 10 geographic regions around the globe on their supply chain readiness from four different perspectives: Economy (E), Politics (P), Infrastructure (I), and Competence (C). The purpose of the EPIC structure is to define and explain the conceptual dimensions of global supply chain management and to identify the characteristics of those dimensions in 10 distinct regions of the world. The structure is intended to help organizations that wish to invest in or manage supply chains in these regions or countries. Each of these dimensions evaluates a number of variables to arrive at a weighted score for that dimension. In turn, the scores on these dimensions are used to arrive at a weighted score for the country. The variables in the EPIC structure are assessed using results from various World Bank databases including Ease of Doing Business Index, Logistics Performance Index, and World Governance Indicators.

2. https://insider.zurich.co.uk/risk-mitigation/supply-chain-resilience-where-are-we-in-2020/

What is unique about this report?

This report differs from the traditional perspective of global supply chain management in several ways. Global supply chain management has typically been defined and operationalized primarily from the perspective of academics and practitioners in either North America or Western Europe, ignoring the potentially different perspectives native to other regions of the world. A major reason for such an ethnocentric North American and European perspective is historical, emerging from an economic history of the last 500 years that is weighted heavily toward the Western world. As we have been recently reminded, however, the world is becoming "flat," with increased interaction among different nations and regions around the world. At the same time, differences between countries are much larger than acknowledged. Thus, organizations ignore the opportunity and risk of operating internationally at their own peril.

Worse yet, organizations may not realize or be prepared for the regional differences—cultural and otherwise—that might jeopardize the success of their global strategies. For example, consider offshoring initiatives. Some organizations may not fully understand the rules of this new global playing field. They may not be prepared to manage the governmental rules and regulations of the country in which they are planning to conduct offshore activity. Even organizations that have significant experience in offshoring may find understanding this environment to be an ongoing process. Most managers do not have the luxury of spending time "in country" to learn the nuances of such issues prior to making decisions. Having a handy reference to information critical to good global supply chain decision making can significantly help these executives manage supply chains in both emerging and mature markets.

How this report will help you

The research conducted for this report reveals that key variables in the macro-environment can help managers better understand the framework for decision making and reduce uncertainty. For example, despite the dynamism and uncertainty of the global environment, there are longer and more consistent trends related to political stability, economic investment in capital, labor, and infrastructure, and cultural norms that either aid or hinder nations around the world from becoming viable options for supply chain operations. Such conditions may be analyzed to aid decision making. Other decisions are dictated by the location of relatively scarce materials such as energy, rare earth metals, or agricultural products. Similarly, the location of markets and infrastructure for final goods distribution can be determined with relative certainty.

Knowledge of the levels of these variables enables supply chain managers to choose the locations for value-added supply chain operations for their enterprise, including transportation hubs and modes for raw materials, location of parts and subcomponent suppliers, finished goods manufacturing and assembly locations, and transportation and distribution hubs for finished goods. In particular, the research results reveal interesting combinations of sourcing, manufacturing, and logistics options for different regional consumer markets.

This report supports the notion that global supply chains across the world will break into a series of demand and supply pods in which regional procurement and manufacturing operations will supply the major demand centers of the area, at least for a significant percentage of production requirements. Clearly some low-cost "commodity" items will continue to be procured from low-labor-cost regions across the globe. However, the trend is clearly toward more regional activity. The question then becomes one of identifying the most advantageous regional locations for such offshoring or outsourcing activity. Should organizations return to procuring from, and manufacturing at, their domestic locations? If so, is the talent and infrastructure still there? Are the total costs and tax environment competitive?

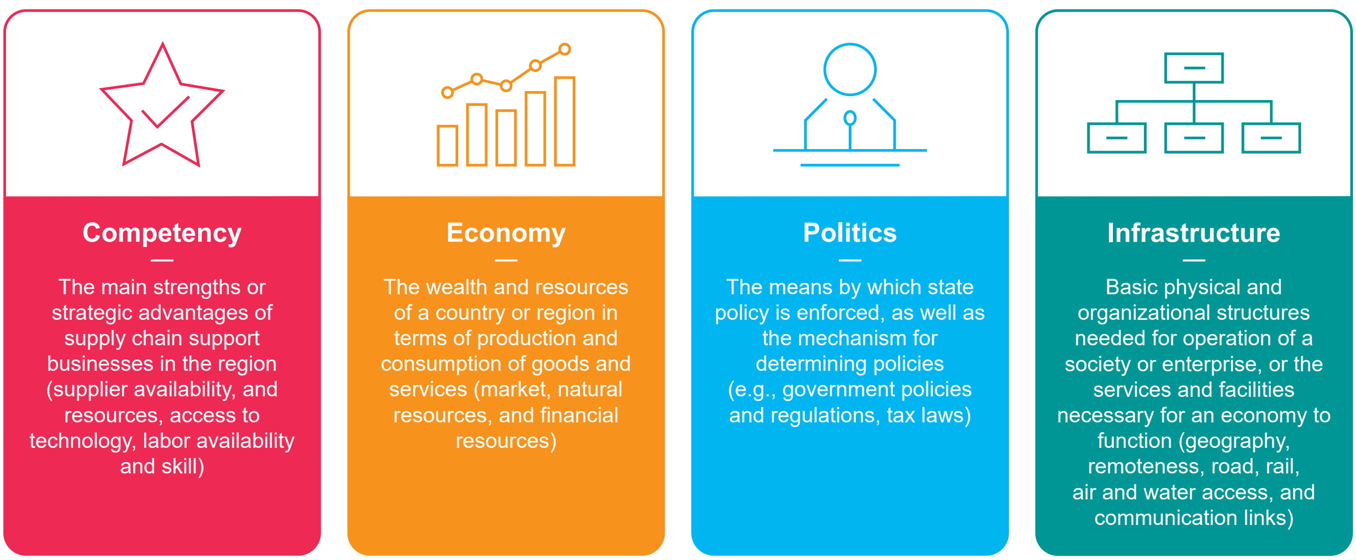
Forward-looking supply chain managers must have the knowledge and information necessary to coordinate multiple inputs and outputs among several enterprises spread across several countries. These managers must learn how to mitigate the significant time delays and cost distortions that often accompany supply chains spread across the globe.

Using the EPIC framework to evaluate global regions

Global supply chain managers can benefit from a tool that helps them assess their supply chain location decisions, identifying the strengths, weaknesses, opportunities, and threats of the different regions in the world.

The EPIC framework[3] provides the structure for assessing various regions around the globe for supply chain readiness from Economic (E), Political (P), Infrastructural (I) and Competence (C) perspectives. The EPIC framework defines and explains these dimensions of the global market environment, in order to assess their potential impacts on the effectiveness of global supply chain management activities, as well as to identify the characteristics of those dimensions in each region of the world.

The EPIC Framework



Source: IHS Markit

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The framework measures and assesses the levels of "maturity" held by a geographic region, with specific respect to its ability to support supply chain activities. The four EPIC dimensions are then assessed using a set of variables associated with each dimension. Each EPIC variable is assessed using quantitative scores based on data drawn from three databases publicly available from The World Bank (World Development Indicators, Worldwide Governance Indicators, and Ease of Doing Business Indicator).

Regional assessments for 64 countries are included in the EPIC analysis. The assessments are organized along 10 distinct geographic regions: East Asia, South Asia, Southeast Asia, Oceania, Middle East and North Africa, Sub-Saharan Africa, Western Europe, Central and Eastern Europe, North and Central America, and South America. The assessments utilizing the EPIC framework ranged from 1 (lowest score) to 4. The scores for all 64 countries are listed in the white paper.

3. Srinivasan, Mandyam M., Dornier, Philippe-Pierre, Petersen, Kenneth J., and Stank, Theodore P. Global Supply Chains : Evaluating Regions on an EPIC Framework : Economy, Politics, Infrastructure, and Competence. New York, N.Y.: McGraw-Hill Education LLC., 2014.

EPIC framework to evaluate global regions

Global supply chain managers can benefit from a tool that helps them assess their supply chain strategies, identifying the strengths, weaknesses, opportunities, and threats of the different regions in the world. The EPIC framework provides a structure for assessing various regions around the globe for supply chain readiness from an Economic (E), Political (P), Infrastructural (I) and Competence (C) perspective.

The EPIC framework defines and explains the environmental dimensions that impact the effectiveness of global supply chain management activities—including economic, political, and infrastructural and business competence issues. The framework measures and assesses the level of maturity of a geographic region with respect to its ability to support supply chain activities. The four dimensions are, in turn, assessed using a set of variables associated with each dimension. Each one of these variables is assessed using a combination of quantitative and qualitative scores based on data drawn from a wide variety of data sources.

Assessing supply chain readiness across regions of the globe

The four dimensions of the EPIC framework capture the key characteristics of a nation that are critical to managing efficient and effective supply chains. Each of the dimensions is evaluated using a number of variables to arrive at a weighted score for that dimension. In turn, the scores on the four dimensions are used to arrive at a weighted score for the country. The four EPIC dimensions are described below.

Economy. The economy dimension assesses the economic output of the country, its potential for future growth, its ability to attract foreign direct investment, and how well it can generate a steady return on investments made in the country. The variables used to assess the economy dimension are the Gross Domestic Product (GDP) and its growth rate, the population, foreign direct investment (FDI), exchange rate stability, consumer price inflation, and the balance of trade. These variables represent the potential opportunity that exists for organizations wishing to engage in supply chain activity in the country. For instance, the GDP of a country is largely determined by its industrial or service activity, which in turn significantly influences the level of supply chain activities.

Politics. The politics dimension assesses the political landscape with respect to how well it nurtures supply chain activity. The variables considered in the politics dimension include the ease of doing business, bureaucracy and corruption, the legal and regulatory framework, tariff barriers, the risk of political stability, and intellectual property rights. These variables influence the environment within which supply chains operate. For example, bureaucracy, corruption, stability of the political system, intellectual property rights, and hiring and firing laws significantly impact even the day-to-day operations in a supply chain. In many countries it requires several weeks to receive customs clearance. Similarly, in certain regions transportation can be delayed or disrupted by "informal barriers" along the journey that require unforeseen payment before being allowed passage.

Politics is particularly important in the initial implementation phase of a supply chain project, as it requires managers to have knowledge of the country and ports from which products will be imported, the safest location for warehousing facilities, and so on. Costly delays can result from such issues as licensing, hiring, and environmental compliance. Furthermore, the encoding of cultural and historical norms in the laws of the nation form the legal framework for operations. Managers consistently have mentioned political issues as being among the most difficult when operating in a global setting.

Infrastructure. The infrastructure dimension tracks variables that strongly influence how supply chains in a country are managed and operated. It represents the potential for leveraging these activities. The variables considered in the infrastructure dimension can be broadly classified into three categories: physical, energy, and telecommunication infrastructures. The physical infrastructure covers the roadways, the railway network, and air and water transportation. The energy infrastructure is responsible for the supply of electricity and fuel. The telecommunications infrastructure is captured by the extent of telephonic and internet-based activity.

Infrastructure has a direct impact on the economy as a whole and especially on supply chain performance. The tangible characteristics of a nation's transportation, utilities, and telecommunications infrastructure required to execute supply chain activities greatly affect supply chain performance. An effective ground transportation network greatly facilitates cost-effective movement of product between sourcing, manufacturing, and market areas. Air and seaport facilities are essential to support global trade by efficiently and effectively moving materials into and out of the region. Investment in infrastructure is an element that can be tracked and is a strong predictor of business growth in a nation or region. Decisions on infrastructure development also require a sound understanding of geography. Roads over tall mountains, across large deserts, and through jungles and marshes generally are not very effective or efficient. In addition, access to stable electricity, water, and telecommunications is essential. For example, many supply chain managers in emerging economies spend significant time and/or money arranging for power generation. Even if a firm does not operate in an emerging market, one or more of its suppliers is likely to operate there. As a result, supply chain managers must be knowledgeable about the conditions in which those suppliers operate so as to ensure top overall supply chain performance.

Competence. The competence dimension assesses the general supply chain skill levels of both the work force and the logistics industry within and out from a country that is a potential part of an organization's supply chain. Variables include:

- Labor productivity
- Labor relations
- Availability of skilled labor
- Education level of line staff and management
- Availability and competence of the existing logistics service industry
- Speed with which customs and security clearances take place

Competence is another dimension with huge direct impact on supply chain performance. Availability of labor, labor productivity, and the sophistication of supply chain support available through the logistics industry in a nation affect the ability to run high-performing supply chains. Mastery of the tangible requirements for supply chain operations is a necessary but not sufficient condition for success.

Supply chain managers must also explore the conditions related to so-called soft issues that culture, history, population, and politics have on supply chain operations. Leading and managing a local workforce is a key success factor in designing and executing supply chain solutions. How people in a region regard work makes a difference. People do not have the same skills, the same references, the same education, or the same hopes from one region to another in the same country, and certainly not across nations or regions. Such issues impact labor force management, attendance, attrition, skill levels, and much more. Performance objectives are not the same by region: level of service may be the requirement for success in one region, and efficient management of inventory may be key in another.

The EPIC Index by dimension

Competence 20%

- 8% Labor tax and constribution (% of commercial profits)
- 8.5% Labor force, total
- 8.5% Unemployment, total (% of total labor force) (model ILO estimate)
- 25% Government expenditure on education, total (% of GDP)
- 40% *Logistics performance index: Competence and quality of logistics services
- 5% *Logistics performance index: Efficiency of customs clearance process
- 5% *Logistics performance index: Ability to track and trace consigments

Economy 30%

- 17.5% GDP (current US$)
- 17.5% GDP growth (annual %)
- 25% Urban population, total
- 20% Foreign direct investment, net inflows (% of GDP)
- 7.5% Official exchange rate (LCU per US$, period change)
- 7.5% Consumer price index (2010 = 100)
- 5% Net trade in goods and services (BoP, current US$)

Politics 20%

- 30% Ease of doing business score
- 30% Strength of legal rights index (0 = weak to 12 = strong)
- 25% Political risk index (sum of 6 indicators from 0 to 1)
- 7.5% Charges for the use of intellectual property, payments (BoP, current US$)
- 7.5% Charges for the use of intellectual property, receipts (BoP, current US$)

Infrastructure 30%

- 5% **Quality of port infrastructure, WEF
- 5% Air transport, freight (million ton-km)
- 5% Railways, goods transported (million ton-km)
- 5% Container port traffic (TEU: 20 foot equivalent units)
- 5% *Logistics performance index: Quality of trade and transport-related infrastructure
- 5% *Logistics performance index: Frequency with which shipments reach consignee within scheduled orexpected time
- 15% *Logistics performance index: Overall
- 5% *Logistics performance index: Ease of arranging competitively priced shipments
- 12.5% Energy use (kg of oil equivalent) per $1,000 GDP (constant 2011 PPP)
- 12.5% Energy use (kg of oil equivalent per capital)
- 5% Mobile cellular subscriptions
- 5% Fixed telephone subscriptions
- 5% Secure internet servers
- 5% Secure internet servers (per 1 million people)
- 5% Individuals using the internet (% of population)

Note : *1 = low to 5 = high; **1 = extremely underdeveloped to 7 = well developed and efficient by international standards.

Source: IHS Markit

The regional assessments

The EPIC scores for each of 10 global regions from the most recent data update[4] are shown in Table 1.

Table 1

EPIC regional assessments

	Economy	Politics	Infrastructure	Competence	EPIC INDEX
Region 1: East Asia	2.85	2.45	3.25	2.90	2.90
Region 2: South Asia	2.73	2.49	1.97	2.04	2.31
Region 3: Southeast Asia	2.80	2.31	2.28	2.40	2.46
Region 4: Oceania	2.36	2.91	2.98	2.96	2.77
Region 5: Middle East and North Africa	2.20	2.03	2.53	2.43	2.31
Region 6: Sub-Saharan Africa	2.03	2.25	1.71	1.87	1.95
Region 7: Western Europe	2.65	2.49	3.05	3.10	2.83
Region 8: Central and Eastern Europe	2.45	2.58	2.49	2.16	2.43
Region 9: North and Central America	2.71	2.75	2.59	2.65	2.67
Region 10: South America	2.26	2.51	1.90	2.12	2.17

Source: University of Tennessee – Knoxville and Global Supply Chain Institute

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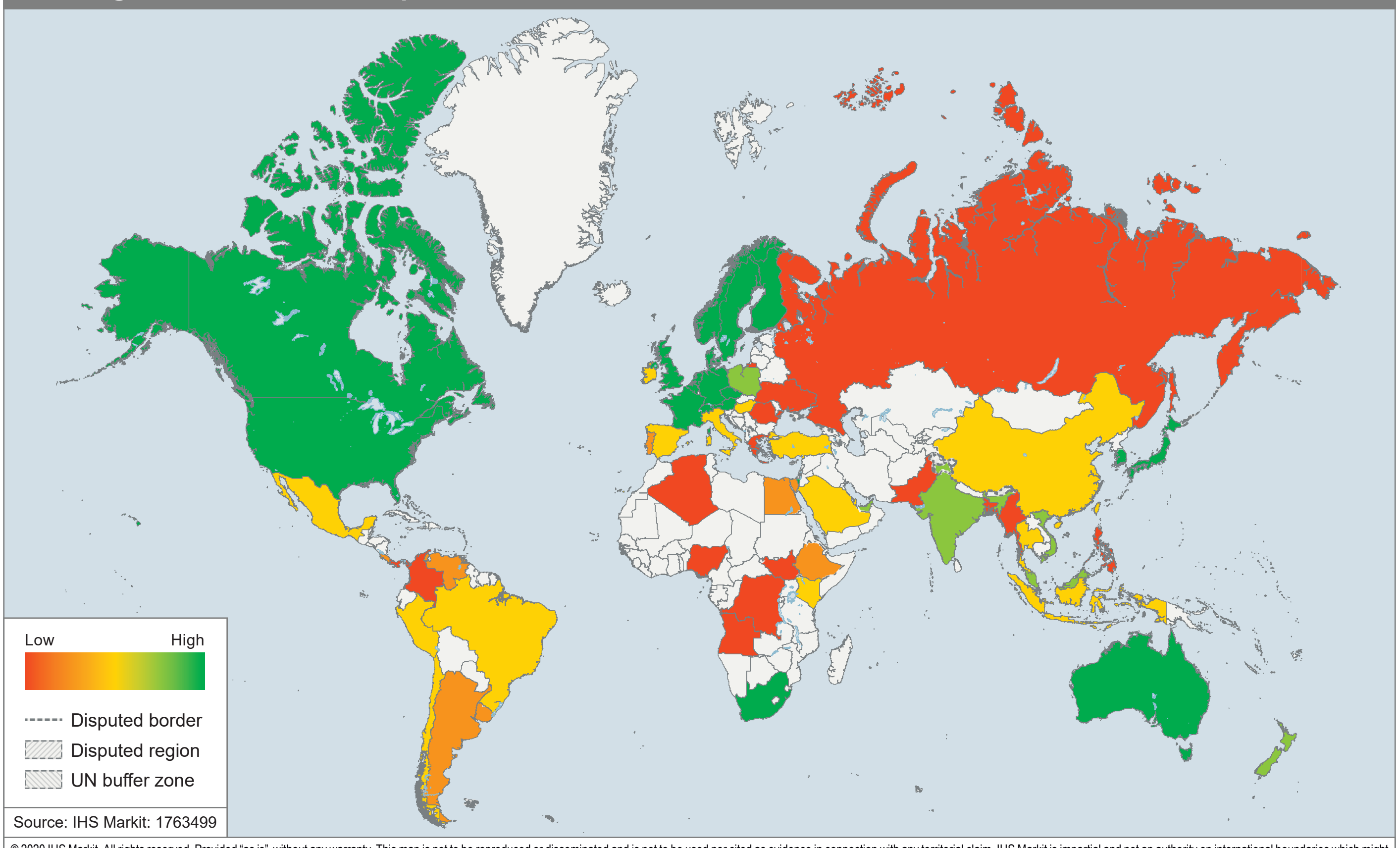
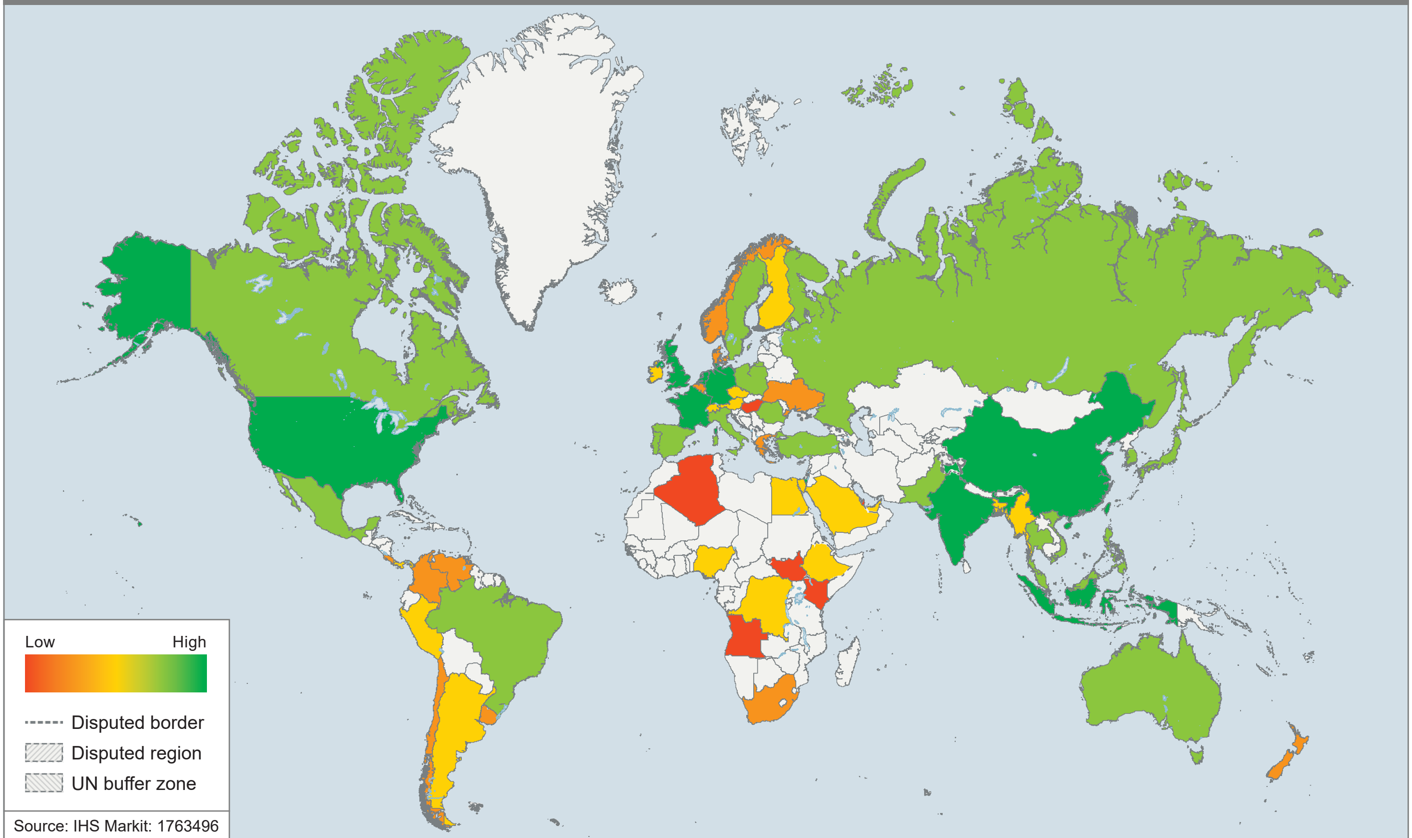
EPIC region assessment: Competence



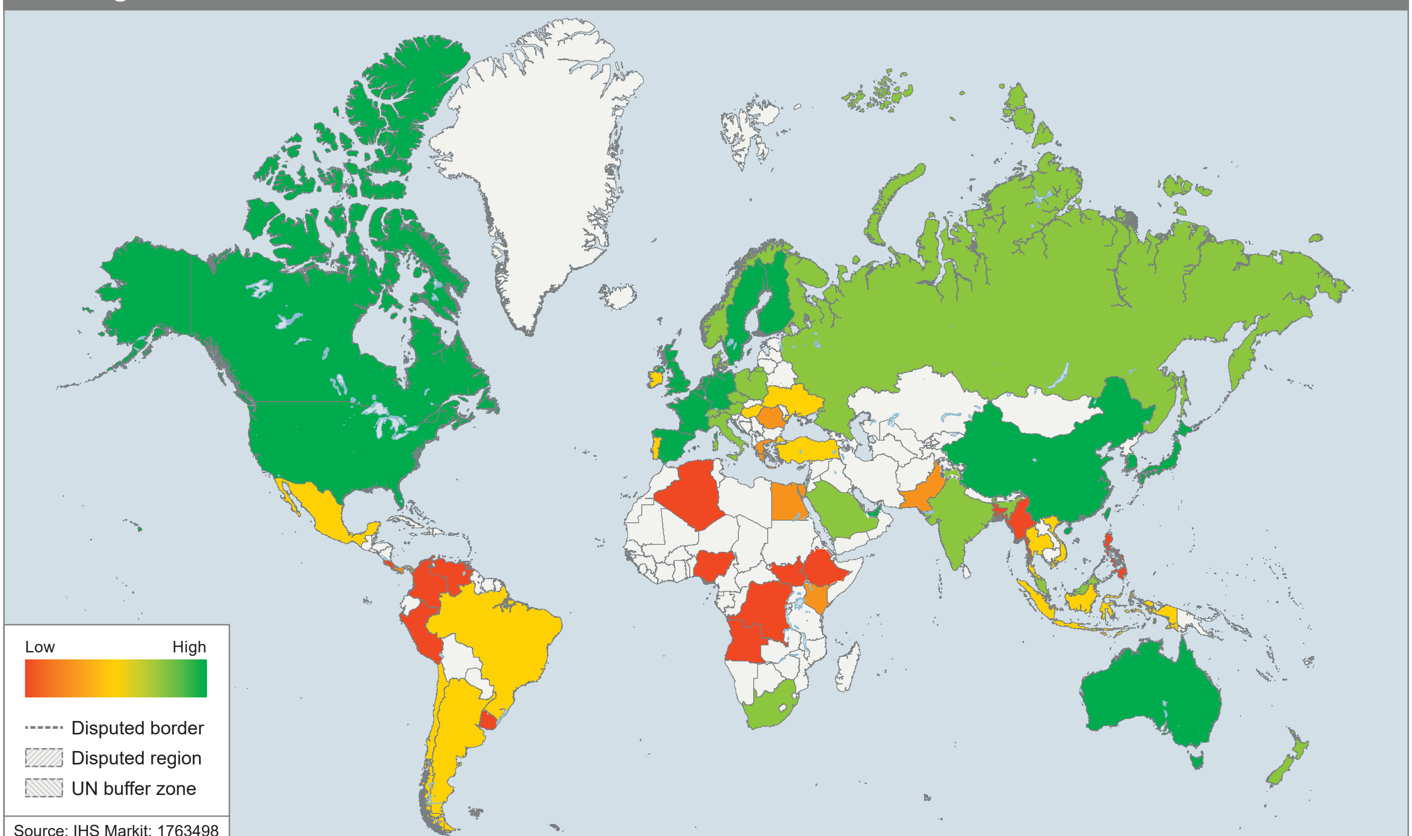
Source: IHS Markit: 1763499

4. Databases are updated on a quarterly basis. Last update occurred on July 2019. Information is lagged two years.

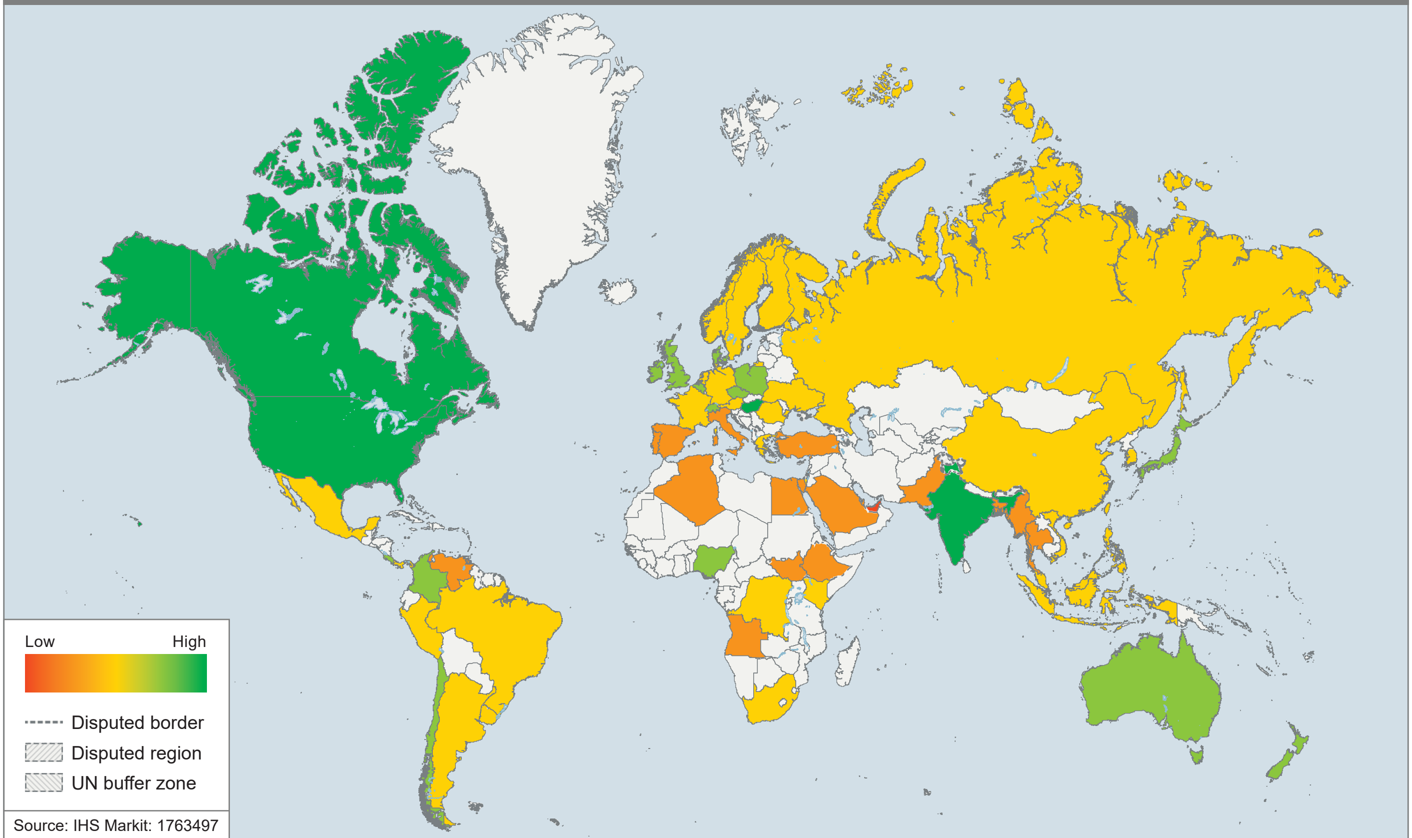
EPIC region assessment: Economics



EPIC region assessment: Infrastructure



EPIC region assessment: Politics



Tables 2 and 3 provide EPIC assessments for the 64 countries included in the analysis.

Table 2

EPIC country assessments by region

	Economy	Politics	Infrastructure	Competence	EPIC INDEX
Region 1: East Asia					
China	3.38	2.35	3.20	2.43	2.93
Hong Kong	2.33	2.40	2.93	3.00	2.65
Japan	2.83	2.80	3.53	3.09	3.08
Korea, Republic	2.88	2.25	3.35	3.09	2.93
Region 2: South Asia					
Bangladesh	2.45	2.20	1.30	1.67	1.90
India	3.08	3.38	2.70	2.79	2.97
Pakistan	2.65	1.90	1.90	1.67	2.08
Region 3: Southeast Asia					
Indonesia	3.18	2.38	2.28	2.34	2.58
Malaysia	2.68	2.45	2.95	2.90	2.76
Myanmar	2.50	1.90	1.10	1.67	1.79
Philippines	3.00	2.30	1.50	1.75	2.16
Singapore	2.58	2.55	3.18	2.83	2.80
Thailand	2.78	2.13	2.50	2.50	2.51
Vietnam	2.90	2.45	2.43	2.79	2.65
Region 4: Oceania					
Australia	2.75	2.95	3.23	3.15	3.01
New Zealand	1.98	2.88	2.73	2.76	2.54

EPIC country assessments by region (continued)					
Region 5: Middle East and North Africa					
Algeria	1.58	1.90	1.63	1.74	1.69
Egypt, Arab Rep.	2.50	2.05	1.98	1.92	2.14
Israel	3.03	2.40	2.63	3.16	2.81
Qatar	1.40	1.85	2.90	2.50	2.16
Saudi Arabia	2.23	2.15	2.70	2.33	2.37
United Arab Emirates	2.45	1.80	3.33	2.95	2.68
Region 6: Sub-Saharan Africa					
Angola	1.35	1.98	1.18	1.41	1.43
Congo	2.38	2.28	1.48	1.50	1.91
Ethiopia	2.45	1.90	1.53	1.92	1.96
Kenya	1.78	2.53	1.93	2.41	2.10
Nigeria	2.35	2.80	1.68	1.50	2.07
South Africa	2.10	2.38	2.98	3.21	2.64
Sudan	1.80	1.90	1.23	1.17	1.52
Region 7: Western Europe					
Austria	2.40	2.35	2.93	3.09	2.68
Belgium	2.08	2.73	3.43	3.42	2.88
Denmark	1.88	2.73	2.75	3.53	2.64
Finland	2.45	2.58	3.40	3.33	2.94
France	3.10	2.55	3.50	3.02	3.09
Germany	3.45	2.50	3.58	3.51	3.31
Ireland	2.30	2.80	2.50	2.55	2.51
Italy	2.63	2.18	2.80	2.50	2.56
Netherlands	3.08	2.50	3.45	3.34	3.12
Norway	2.05	2.28	2.80	3.08	2.53
Portugal	2.63	1.95	2.25	2.19	2.29
Spain	2.98	2.10	3.08	2.42	2.72
Sweden	2.78	2.50	3.18	3.42	2.97
Switzerland	2.55	2.80	2.85	3.33	2.85
United Kingdom	3.43	2.80	3.25	3.83	3.33
Region 8: Central and Eastern Europe					
Czech Republic	2.53	2.63	2.78	3.09	2.73
Greece	1.95	2.25	2.15	1.80	2.04
Hungary	1.60	3.30	2.55	2.32	2.37
Poland	3.00	2.70	2.85	2.87	2.87
Romania	2.70	2.60	1.95	1.35	2.19
Russian Federation	2.70	2.58	2.80	1.59	2.48
Turkey	2.98	1.98	2.58	2.45	2.55
Ukraine	2.15	2.60	2.28	1.80	2.21
Region 9: North and Central America					
United States	3.03	3.10	3.78	3.67	3.39
Canada	2.95	3.10	3.70	3.42	3.30
Mexico	3.00	2.28	2.30	2.59	2.56
Costa Rica	2.08	2.83	1.28	1.84	1.94
Panama	2.48	2.45	1.88	1.75	2.15
Region 10: South America					
Argentina	2.45	2.45	2.23	1.97	2.29
Brazil	2.98	2.53	2.48	2.51	2.64
Chile	1.95	2.63	2.35	2.51	2.32
Colombia	2.20	2.90	1.55	1.50	2.01
Peru	2.40	2.60	1.30	2.33	2.10
Uruguay	1.90	2.48	1.63	1.95	1.94
Venezuela, RB	1.98	1.98	1.75	2.08	1.93

Source: University of Tennessee – Knoxville and Global Supply Chain Institute

Table 3

EPIC country assessments

Rank	Country	EPIC Index
1	United States	3.39
2	United Kingdom	3.33
3	Germany	3.31
4	Canada	3.30
5	Netherlands	3.12
6	France	3.09
7	Japan	3.08
8	Australia	3.01
9	Sweden	2.97
10	India	2.97
11	Finland	2.94
12	Korea, Rep.	2.93
13	China	2.93
14	Belgium	2.88
15	Poland	2.87
16	Switzerland	2.85
17	Israel	2.81
18	Singapore	2.80
19	Malaysia	2.76
20	Czech Republic	2.73
21	Spain	2.72
22	Austria	2.68
23	United Arab Emirates	2.68
24	Hong Kong	2.65
25	Vietnam	2.65
26	Brazil	2.64
27	South Africa	2.64
28	Denmark	2.64
29	Indonesia	2.58
30	Mexico	2.56
31	Italy	2.56
32	Turkey	2.55
33	New Zealand	2.54
34	Norway	2.53
35	Ireland	2.51
36	Thailand	2.51
37	Russian Federation	2.48
38	Saudi Arabia	2.37
39	Hungary	2.37
40	Chile	2.32
41	Portugal	2.29
42	Argentina	2.29
43	Ukraine	2.21
44	Romania	2.19
45	Philippines	2.16
46	Qatar	2.16
47	Panama	2.15
48	Egypt, Arab Rep.	2.14
49	Kenya	2.10
50	Peru	2.10
51	Pakistan	2.08
52	Nigeria	2.07

EPIC country assessments (continued)		
53	Greece	2.04
54	Colombia	2.01
55	Ethiopia	1.96
56	Uruguay	1.94
57	Costa Rica	1.94
58	Venezuela, RB	1.93
59	Congo	1.91
60	Bangladesh	1.90
61	Myanmar	1.79
62	Algeria	1.69
63	Sudan	1.52
64	Angola	1.43

Source: University of Tennessee – Knoxville and Global Supply Chain Institute © 2020 IHS Markit

EPIC framework and supply chain network design

The EPIC assessments can be very helpful in completing a first pass at a global strategic design. This first pass assessment can be used to drive decisions regarding more practical and detailed supply chain issues that are aligned with the variables in the EPIC framework and must be considered in a global supply chain network design.

EPIC variables that impact key supply chain network design issues

Dimension	Key variables	Supply chain network design issues
Economy	GDP and GDP growth rate	Retail store location Supply network—node location
	Population size	Retail store location Sales channel—direct sales stores vs. distributors E-commerce vs. retail store
	Foreign direct investment	Manufacturing location
	Exchange rate stability and CPI	Manufacturing location
	Balance of trade	Sourcing & manufacturing location
Politics	Ease of doing business	Retail store location Supply network—node location Sourcing & manufacturing location
	Legal and regulatory framework	Retail store location Supply network—node location Sourcing & manufacturing location
	Risk of political stability	Retail store location Supply network—node location Sourcing & manufacturing location
	Intellectual property rights	R&D center E-commerce vs. retail store Decisions on product design
Infrastructure	Transportation infrastructure	Logistics network design
	Utility infrastructure (Electricity)	Sourcing, manufacturing, and logistics location
	Telecommunication and connectivity	Sourcing, manufacturing, and logistics location Retail store location

EPIC variables that impact key supply chain network design issues (continued)		
Competence	Labor relations	Sourcing, manufacturing, and logistics location
	Education level	R&D center E-commerce vs. retail store Design school and champion Sourcing, manufacturing, and logistics location Retail store location
	Logistics Competence	Sourcing, manufacturing, and logistics location E-commerce vs. retail store (e.g. courier services)
	Customs & security	Sourcing, manufacturing, and logistics location

Source: IHS Markit

There are many examples of how the EPIC variables can be used to drive supply chain network design. Nowhere is this truer than the global supply chain's relationship with China. China has moved from third world country to global power over the last half-century and is flexing its muscles around the world. China's GDP has seen a dramatic rise since the turn of the century from $1.2 trillion in 2000 to $13.6 trillion in 2018. Governmental initiatives such as the Belt and Road Initiative are pumping money into transportation infrastructure in countries such as Kazakhstan, Pakistan, Bangladesh, and Panama. While China remains a manufacturing powerhouse, accounting for nearly a quarter of global manufacturing output, increasingly domestic consumer spending is driving its economy. Consumer retail spending rose approximately 8% in the first 10 months of 2019. China is currently our largest goods trading partner with $659 billion in total goods trade during 2018 ($120 billion export, $539 billion import).

Given China's position as a leading producer and consumer, it's no wonder the country is a critical component of most global supply chains. However, the US-China trade war has injected significant uncertainty into network planning initiatives. While a phase one deal between the US and China will likely be signed in early 2020, the future phases addressing issues like forced technology transfer are more contentious and may pose risks to supply chains tied to China throughout 2020 and beyond. The drumbeat from Washington for the US to "uncouple" its economy from China will not quiet down any time soon and represents a significant source of risk for any supply chain, even if the supply chain does not have a direct China link.

A top concern of US policymakers is that technology components produced in China could be compromised and used for surveillance or sabotage activities in the US. In May of 2019, the US added Chinese telecom company Huawei to the US Department of Commerce's Bureau of Industry and Security Entity List. In retaliation, China has threatened to create its own blacklist of firms, citing US logistics giant FedEx as a possible candidate for that list due to alleged rerouting of Huawei packages destined to China to the US. Any components of your global supply chain that could be ensnared in this back-and-forth between the US and China should have disruption plans in place.

In October of 2019, the US government blacklisted another 28 Chinese firms for human rights violations. Importantly, the US may not be able to stay out of the middle of the ongoing dispute between Hong Kong and China in 2020. These issues, coupled with ongoing wage inflation in China, have forced companies to reconsider outsourcing decisions that may have been made decades ago. Countries such as Vietnam, Malaysia, Indonesia, Costa Rica, Nigeria, and Uruguay have emerged as potential alternatives, but they all come with additional risks arising from the unstable strength of their economy, the stability of their political systems, the quality of their infrastructure, the competence of their workforce, or simply their capacity to support new operations. Bringing manufacturing back to high-consuming countries such as Germany and the US is another alternative, but also brings higher taxes and labor costs.

Creating a better understanding of these trade-offs between countries is a key objective of the EPIC report. For instance, Bangladesh offers a cheap and flexible workforce but must be balanced with corruption risks, bureaucratic governance, and undeveloped infrastructure. Another example is India, which boasts one of the world's fastest-growing economies with a welcoming attitude toward foreign direct investment. However, India's complex legislation and fractious government make getting things done both risky and time-consuming.

The concern expressed by supply chain professionals over a labor shortage in the European Union at the CSCMP 2019 EDGE conference offers a great example of why country-level knowledge is so important when making supply chain decisions. While labor shortages are an issue across much of the European Union, it's much worse in Eastern Europe where the workforce could fall by 25% by 2050, according to the International Monetary Fund (IMF). Additionally, while Luxembourg and Ireland have almost five working-age people for every person 65 or over, Italy, Finland, and Greece have less than three working-age people for every person aged 65 or over. Compare this with Pakistan, where two-thirds of the population is under 30 years old, or the Philippines, where the median age is 23. While these countries don't have the labor shortage risks, they have a host of others; every decision involves trade-offs.

Our research at the University of Tennessee suggests that global supply chains are responding to these market changes by creating several demand and supply pods where regional demand is served through procurement and manufacturing in the same region. IT research and advisory company Gartner, Inc. describes this shift back to regional sourcing as multi-local operations. Multi-local refers to the trend toward a more regionalized approach where procurement and manufacturing capabilities are placed locally but planned globally. Combining the country-level insights in this report with a company's specific customer demand patterns can help these firms determine the most appropriate combination of centralized versus regional supply pods.

Not all supply chain challenges concern trade-offs between countries. Two prospective challenges that span geographies include the Digital Economy and Sustainability. First and foremost, the commercial internet has given consumers access to the greatest source of power since the dawn of time, information. With this information, their expectations have increased exponentially, creating new pressures on last-mile supply chains. What used to be okay to deliver in a week is now demanded the next day … or sooner! Further, what was ten cases of running shoes with ten pairs per case delivered to a single sporting goods store is now 100 different deliveries of running shoes to individual consumers. Because these 100 deliveries are also demanded in a shorter time frame, there is less time to leverage one of the traditional sources of efficiency, consolidation.

Many companies are rethinking their supply chain as a result of this and are storing inventory at more locations closer to their customers, using contractors or crowd-sourced delivery models, or having their retail outlets pull double duty as distribution centers. These strategies can help meet demands for same-day and next-day delivery but must be balanced against higher operational and inventory holding costs.

If this equation wasn't difficult enough to solve, add the mega-trend of urbanization. By 2030, over two-thirds of the world's population will live in cities. More people receiving more deliveries with tight delivery requirements in tight locations is a problem keeping supply chain professionals around the world up at night. Already, companies like UPS pay millions of dollars each year in parking fines to deliver in Manhattan. This cost will only rise as e-commerce shipments continue to grow, and municipalities begin implementing "congestion pricing" in high-traffic areas during peak times. Getting the right balance between service and cost will be a top supply chain opportunity for many firms.

The second geography-spanning issue is Sustainability. As noted earlier, a key concern of supply chain professionals at the 2019 EDGE conference was "natural disasters and their impacts on coastal areas and supply chain in general." While there are still disagreements in the global community about the existence and impact of climate change, the Intergovernmental Panel on Climate Change (IPCC) warns that the world is on a path to 1.5 degrees Celsius warming by 2030. At these levels, seas will rise, and coastlines will alter. While the Arctic may be ice-free in the summer allowing ships a shorter route to market, the benefit comes at an extreme cost.

The National Centers for Environmental Information (NCEI) reported that in 2019 (as of October 8), there "have been 10 weather and climate disaster events with losses exceeding $1 billion each across the United States. These events included 3 flooding events, 5 severe storm events, and 2 tropical cyclone events. Overall, these events resulted in the deaths of 39 people and had significant economic effects on the areas impacted. The 1980-2018 annual average is 6.3 events (CPI-adjusted); the annual average for the most recent 5 years (2014-2018) is 12.6 events (CPI-adjusted)."

The first check on country-by-country progress toward the Paris Climate Agreement originally struck in 2016 will take place in 2020. As a result, companies should prepare for additional consumer activism, especially in Europe. Companies will also need to come to terms with the growing trend toward pricing climate risk into credit decisions and capital markets.

Regions overview

The following sections present a deep dive into 10 global regions and 64 countries using EPIC Framework scores and analysis by IHS Markit to provide a brief assessment of each.

Region 1 – East Asia

East Asia	Economy	Politics	Infrastructure	Competence	Overall grade
China	3.38	2.35	3.20	2.43	2.93
Hong Kong SAR, China	2.33	2.40	2.93	3.00	2.65
Japan	2.83	2.80	3.53	3.09	3.08
Korea, Rep.	2.88	2.25	3.35	3.09	2.93

Source: IHS Markit

China

Strengths and weaknesses

Strengths	Weaknesses
The government's long-term perspective and stability in leadership structure helps address structural social-economic issues.	The Chinese economy remains heavily state-dominated, and foreign companies are particularly vulnerable to heavy-handed state interventions, especially at times of economic stress.
Serious domestic security risks are highly unlikely to arise given the government's hardliner position to political opposition. Labor issues and environmental concerns, most common causes of protests, present little risk of serious damage to commercial assets.	Bureaucratic hurdles, corruption—especially at provincial government-level—and a lack of legal and regulatory transparency are key obstacles to conducting business in China.
Accommodative fiscal and monetary policy to maintain economic growth, increasing focus on the private sector as growth and innovation driver is a central domestic policy priority.	State-owned enterprises remain in control of many key strategic industries, with aggressive reforms unlikely in the short-term; recent tax cuts threaten to further reduce local government revenue and increase risks of regulatory targeting against companies not well connected to the government.

Source: IHS Markit

Protests and violence: The 24 November district election results confirm earlier anecdotal evidence that anti-government protests, despite turning increasingly disruptive, still have the broad support of the general public. Further city-wide protest-induced disruptions are likely throughout 2020. In the meantime, widespread use of extra crowd control equipment including water cannons and live rounds by the Hong Kong SAR police is highly likely because of anti-riot police fatigue following continuous deployment. Chief Executive Carrie Lam is expected to remain in power at least until protests end but is increasingly likely to step down before her term ends in June 2022.

China involvement: Official deployment of mainland Chinese troops remains unlikely at present, but the likelihood will increase if protests persist throughout the fourth quarter of 2019. People's Liberation Army (PLA) deployment will be indicated by signs that the Hong Kong police can no longer secure government offices and key infrastructure assets. Should they deploy, the most likely scenario would involve the PLA garrison in Hong Kong securing vital infrastructure while the People's Armed Police support Hong Kong police in public order and riot control.

Economy and taxes: Hong Kong's economy has plunged into the worst slump in 10 years. Real GDP contracted sharply by 2.9% y/y in the third quarter of 2019, marking the sharpest drop since the second quarter of 2009. In seasonally adjusted terms, the economy also slumped by a sharp 3.2% from the preceding quarter, accelerating from a 0.5% fall recorded in the second quarter, sending the economy into a recession.

Trade tensions: Heightened domestic and external headwinds will continue to place the near-term outlook under stress amid escalating mainland China-US trade tensions, a slowdown in the mainland Chinese economy, and weaker global demand, compounded by escalating social unrest. Most of the disruptions to tourism, business, and economic activities by the political unrest are expected to be felt in the third quarter.

Hong Kong top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Public admin and defense, other services	66.3	1.9	19.0
2. Financial service activities, except insurance and pension funding	39.9	1.1	11.5
3. Wholesale trade, except of motor vehicles and motorcycles	33.1	-2.2	9.5
4. Retail trade, except of motor vehicles and motorcycles	32.3	-1.4	9.3
5. Insurance, reinsurance, and pension funding, except compulsory social security	20.7	1.3	5.9
6. Human health and social work activities	18.1	2.7	5.2
7. Construction	17.6	-3.1	5.1
8. Real estate activities	17.2	-2.0	4.9
9. Education	13.3	0.9	3.8
10. Land transport	11.8	-0.4	3.4
Top-10 total	**270.3**		**77.6**

Source: IHS Markit

Japan

Strengths and weaknesses

Strengths	Weaknesses
Japan has a well-developed and transparent tax system.	Japan's corporate tax burden is moderately high compared with other East Asian countries.
The government is democratic and relatively stable, particularly because of the Liberal Democratic Party's decades-long dominance.	Exclusive political and business networks (linking domestic conglomerates with the central government) can hinder foreign investment and disadvantage foreign companies in competition for contracts.
Japan's policy on foreign investment is liberal; there are few formal restrictions to FDI.	A high overall cost structure makes market entry and expansion expensive for foreign investors.
Japan has an advanced and non-discriminatory legal system.	Japan is at high risk of natural disasters, including earthquakes and tsunamis.

Source: IHS Markit

Economic policy: Structural changes to the labor market are an important part of Prime Minister Shinzō Abe's "Abenomics" economic policy bundle. The ruling coalition's victory in the July 2019 Upper House elections means that a constitutional amendment proposal is more likely to be tabled in the National Diet in 2020, although it remains less likely to pass. If it were to pass, the subsequent plebiscite would likely fail, especially if it includes a change to pacifist Article 9. Beyond the one-year outlook, increasing civil society disillusion is the main risk threatening to undermine Japan's long-standing government stability.

Economy: IHS Markit has maintained Japan's near-term real GDP growth forecast: a pullback for consumer spending following the consumption tax increase and persistent weak external demand could contain economic growth before a modest recovery. The softer outlook for the global economy and narrower US-Japan interest rate differentials are unlikely to lead to a meaningful rewind of yen appreciation over the near term.

Workforce and taxes: Challenges include Japan's relatively high corporate tax rate compared with its neighbours, insular business culture, linguistic and cultural barriers, as well as heavy government regulation in various sectors. Japan's government will continue to make efforts to increase labor-market participation by female and elderly workers through "working-style" reforms and by foreign workers through a new visa status and other measures. Even so, the problem of a rapidly aging population will continue to exert pressure on government finances and limit the size of Japan's workforce for at least the five-year outlook.

Japan top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Real estate activities	579.6	0.5	11.8
2. Wholesale trade, except of motor vehicles and motorcycles	398.1	-0.9	8.1
3. Human health and social work activities	364.0	2.4	7.4
4. Public admin and defense, other services	312.4	3.5	6.3
5. Construction	257.1	0.3	5.2
6. Retail trade, except of motor vehicles and motorcycles	232.7	-0.1	4.7
7. Education	187.4	0.3	3.8
8. Land transport	160.3	-0.2	3.3
9. Financial service activities, except insurance and pension funding	152.4	2.7	3.1
10. Accommodation and food service activities	122.1	1.3	2.5
Top-10 total	**2766.0**		**56.1**

Source: IHS Markit © 2020 IHS Markit

South Korea

Strengths and weaknesses

Strengths	Weaknesses
South Korea's economy benefits from a strong combination of free markets, pro-industrial development policies, and an outwards orientation.	Major family-run conglomerates ("chaebeol") are the major obstacle to foreign investment in South Korea.
Government policies and regulations welcome foreign investment; a wealth of statistics is publicly available online.	Corruption is a problem, especially at the highest levels of the government and private sector.
South Korea benefits from excellent transport and communications infrastructure.	The labor market remains inflexible, despite promised reforms.
Notwithstanding the threat posed by North Korea, South Korea's security environment is benign.	There is some resistance to foreign investment from local government and lower levels of the bureaucracy.

Source: IHS Markit © 2020 IHS Markit

Politics: President Moon Jae-in's popularity has relied heavily on the inter-Korean rapprochement in 2018 and on a strong stance against Japanese trade restrictions in 2019. Although Moon delivered a supplemental budget for job creation, a tax increase for the largest corporations, and a minimum wage rise early on in his single five-year term, he has lost public and political support throughout 2019. His administration is likely to further struggle to pass controversial policies in 2020 as he approaches the end of his single five-year term in May 2022.

Risk of protests: Presidents Democratic Party only holds 128 of 300 seats in the National Assembly, necessitating cooperation with centrists or the conservative opposition. Slow progress or unpopular policies are likely to trigger large-scale protests organized by civil groups or labor unions (which are more likely to fight with security forces).

Economy: Despite the contraction in the first quarter, growth sharply rebounded in the second quarter. After a sluggish second half, due to repercussions from the China-US trade conflict, growth should return to normal in mid-2020. Strong fundamentals favor continued expansion, because of prior stimulus from the Moon administration, healthy domestic spending reflecting continued confidence in the household and business sectors, and dovish monetary policy from the Bank of Korea.

Inflation: Inflation should remain flat this year, followed by a small acceleration next year owing to healthy growth, negligible slack in the supply side of the economy, and gradually rising oil prices.

War with North Korea: North Korea and South Korea are officially still at war. The Moon administration's efforts at rapprochement are likely to continue to be constrained by deteriorating North Korea-US relations, unless the US changes its position. IHS Markit assesses that the most probable scenario is a return to an exchange of military threats and open weapons testing by North Korea.

South Korea top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Public admin and defense, other services	134.0	3.6	9.1
2. Real estate activities	106.4	0.9	7.2
3. Construction	81.2	1.6	5.5
4. Education	77.0	1.2	5.2
5. Human health and social work activities	74.2	8.6	5.1
6. Wholesale trade, except of motor vehicles and motorcycles	60.0	3.8	4.1
7. Financial service activities, except insurance and pension funding	56.7	4.6	3.9
8. Manufacture of electronic components and boards	52.7	-0.6	3.6
9. Wholesale and retail trade and repair of motor vehicles and motorcycles	46.4	2.6	3.2
10. Electricity, gas, steam, and air conditioning supply	39.2	6.2	2.7
Top-10 total	**727.7**		**49.6**

Source: IHS Markit

Region 2 – South Asia

South Asia	Economy	Politics	Infrastructure	Competence	Overall grade
Bangladesh	2.45	2.20	1.30	1.67	1.90
India	3.08	3.38	2.70	2.79	2.97
Pakistan	2.65	1.90	1.90	1.67	2.08

Source: IHS Markit

Bangladesh

Strengths and weaknesses

Strengths	Weaknesses
Positive government attitude toward foreign investment.	Corruption and bureaucratic governance.
Cheap and flexible workforce.	Underdeveloped infrastructure.
Well-established garments and textiles sector.	Violent unrest caused by confrontational politics.
Advantageous geographical location in Bay of Bengal.	Rising Islamist militancy targeting foreigners and minorities.

Source: IHS Markit

Economy slows down but expected to remain strong: After reaching historically high growth of 7.9% in fiscal year (FY) 2017/18 (ended June 2018), Bangladesh's economy will moderate during the next three years. However, the economy will still expand solidly at a projected 7.1% in FY 2018/19 and 6.3% in FY 2019/20, reflecting strong private consumption supported by solid remittances growth, continuous public investment efforts, and rising manufacturing exports. Inflation in Bangladesh was contained in 2019 reflecting domestic gas and power tariff adjustments, strong domestic demand, and a weakening currency.

Growth in foreign investment likely with China leading: Economic growth is likely to be facilitated by a largely stable domestic political environment. The ruling Awami League (AL) retained power for an unprecedented third consecutive term in December 2018. Despite the opposition's rejection of the election result, opposition legal challenges or protests are unlikely to be able to force a re-election or increase government instability risks more broadly given the opposition's weakness. The AL-led government is likely to continue to encourage foreign investment, with a growing preference for Chinese involvement in the infrastructure, power, and manufacturing sectors.

Large protests unlikely: Stable internal politics also renders large-scale anti-government protests unlikely. However, the Islamic State has demonstrated intent to revive operations in Bangladesh, with the group claiming a series of improvised explosive device (IED) attacks in Dhaka in early 2019, the first that it has been linked to since 2017. That said, local Islamist networks lack the technical sophistication and human resources to carry out more high-impact operations, such as suicide bombings, vehicle-borne IED attacks, and armed assaults, although militants probably aspire to do so. Instead, there is an increasing risk of crude IED attacks against churches, Shia mosques, expatriates, non-governmental organization offices, and hotels and restaurants, mainly in Dhaka.

Bangladesh top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Agriculture, forestry, and fishing	33.8	2.9	13.3
2. Public admin and defense, other services	21.6	5.1	8.5
3. Construction	20.3	9.2	8.0
4. Wholesale trade, except of motor vehicles and motorcycles	18.0	8.0	7.1
5. Manufacture of wearing apparel	17.6	11.4	6.9
6. Retail trade, except of motor vehicles and motorcycles	13.2	9.8	5.2
7. Arts, entertainment, and culture	11.6	9.3	4.5
8. Manufacture of food products	9.0	8.0	3.5
9. Land transport	8.7	7.5	3.4
10. Real estate activities	8.0	5.7	3.1
Top-10 total	**161.7**		**63.5**

Source: IHS Markit

India

Strengths and weaknesses	
Strengths	**Weaknesses**
India is one of the world's fastest-growing, major economies, despite delays in passing key legislation targeted at improving investor confidence and facilitating business.	There is often a wide gulf between the commitments made by governments and the measures that the fractious legislature and bureaucracy can implement.
The government generally adopts a welcoming attitude towards foreign direct investment (FDI) and is seeking to push through a series of economic reform measures across sectors.	India's bureaucracy can be a major impediment to business and is known to foster corruption.
Ceilings on foreign investment in individual sectors are gradually being raised. Many sectors now permit foreign investment without government approval.	Limits on foreign ownership tend to remain the rule rather than the exception. In some sectors, the government increases regulations to favor local enterprises
The judiciary is independent and, in recent years, has been increasingly assertive in checking perceived abuses of power by the executive.	Legislation is complex and often outmoded, while its implementation is frequently inefficient and delayed as politicians seek to serve the interests of different voter groups.

Source: IHS Markit

Opposition parties weakened after the election: The Bharatiya Janata Party consolidated its dominance of India's lower house in the 2019 election, largely because of the personal popularity of Prime Minister Narendra Modi. This is likely to facilitate the passage of legislation through the lower house, where opposition parties will remain weakened by their failed coalition in the May election.

Cross-border tension between India and Pakistan: India's removal of Jammu and Kashmir's constitutional privileges has increased the likelihood of significant cross-border firing between India and Pakistan. Although Pakistan – which claims the territory in its entirety – is likely to oppose the move diplomatically, this is unlikely to affect Indian policy, in turn driving Pakistani attempts to encourage protests and separatist attacks against Indian security forces in Kashmir.

Economy: In June 2019, government data reported that India's economic growth had plummeted to a six-year low of 5% year on year, weighed down by a slump in manufacturing, sharply weaker consumer demand, and weak private investment. In September 2019, India reduced its basic corporate tax rate for domestic companies from 30% to 22%, and for new companies making fresh investments in manufacturing (incorporated after 1 October 2019), the tax rate was reduced from 25% to 15%. The tax cuts fit within ongoing government measures to address the slowing economy.

Inflation: Inflation remains contained within the Reserve Bank of India's (RBI's) target level, despite a series of rate cuts. The growth-inflation dynamics therefore provide space for the RBI to ease rates to support discretionary and cyclical sectors of the economy. In addition, the government is expected to announce more sector-specific measures to lift the economy from structural slowdown.

India top-10 sectors ranked by value added	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Agriculture, forestry, and fishing	415.9	0.7	16.6
2. Public admin and defense, other services	219.2	10.1	8.8
3. Real estate activities	187.7	8.0	7.5
4. Construction	179.7	5.9	7.2
5. Wholesale trade, except of motor vehicles and motorcycles	145.0	8.8	5.8
6. Financial service activities, except insurance and pension funding	105.9	8.9	4.2
7. Education	104.2	9.0	4.2
8. IT and information services	84.7	10.7	3.4
9. Retail trade, except of motor vehicles and motorcycles	62.9	6.4	2.5
10. Land transport	59.9	8.8	2.4
Top-10 total	**1565.0**		**62.5**

Source: IHS Markit

Pakistan

Strengths and weaknesses

Strengths	Weaknesses
Two-thirds of Pakistan's population is under 30 years old.	Slow legal system, with courts taking years to resolve commercial disputes.
Major Chinese investment during the next 10 years will substantially upgrade the country's infrastructure.	Pakistan's tax system is underdeveloped and suffers from a low tax-to-GDP ratio.
Geostrategic position located between the oil-producing Middle East, the Gulf shipping lanes, and the giant markets of China and India.	An acute energy deficit, leaving many businesses without power for hours each day.
English is widely spoken, and the country possesses a well-educated elite.	Terrorism poses a major threat in major urban centers, although the risk has reduced.

Source: IHS Markit

Focus to reduce dependence on external borrowing: The Pakistan Tehreek-e-Insaf (PTI)-led government's policies under the July 2019 IMF program will focus on overcoming Pakistan's immediate balance-of-payments crisis and reducing the country's dependence on external borrowing in the longer term. The government's first policy announcements – including the FY2020 budget – include measures to raise tax revenue, cut public spending and infrastructure investment, as well as higher import tariffs.

Growth slowdown: The government's fiscal austerity program, combined with further monetary policy tightening and scaled back infrastructure investment within and outside the China-Pakistan Economic Corridor, had led to a slowdown in growth from 5.4% in FY 2018 to a 3.5% in FY 2019 (ending June 2019). Moreover, strict IMF conditions involving unpopular fiscal and structural reforms are likely to undermine the popularity of the PTI-led government and trigger broad social unrest.

High airstrike potential: There is a very high likelihood of Pakistan-India skirmishes, including artillery exchanges and Indian airstrikes, in the Kashmir region during Indian Prime Minister Narendra Modi's second term, particularly after India removed Indian-administered Kashmir's special autonomous privileges in August 2019. Any escalation would likely remain contained to Kashmir and both sides would probably seek to target military assets (in the case of India, separatist militants) in Kashmir, as opposed to critical infrastructure, before seeking de-escalation.

Suicide attacks are likely: Non-state armed group activity declined for a fourth consecutive year in Pakistan during 2018, with overall attacks decreasing by 28%; there have been no major attacks on commercial assets or airports since 2015. However, suicide bombings targeting security forces and religious minorities in urban areas, including Lahore and Karachi, by Islamist militants are likely. Meanwhile, Baloch separatist militants are likely to target Chinese nationals using increasingly ambitious tactics, including suicide bombings.

Pakistan top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Agriculture, forestry, and fishing	64.1	0.8	24.0
2. Land transport	25.5	2.6	9.5
3. Retail trade, except of motor vehicles and motorcycles	22.5	3.9	8.4
4. Public admin and defense, other services	18.8	8.0	7.1
5. Wholesale trade, except of motor vehicles and motorcycles	18.5	6.2	6.9
6. Real estate activities	14.7	4.0	5.5
7. Manufacture of textiles	8.5	-0.0	3.2
8. Manufacture of food products	7.5	3.5	2.8
9. Construction	6.2	-7.6	2.3
10. Education	5.9	5.6	2.2
Top-10 total	**192.1**		**71.9**

Source: IHS Markit

Region 3 – Southeast Asia

Southeast Asia	Economy	Politics	Infrastructure	Competence	Overall grade
Indonesia	3.18	2.38	2.28	2.34	2.58
Malaysia	2.68	2.45	2.95	2.90	2.76
Myanmar	2.50	1.90	1.10	1.67	1.79
Philippines	3.00	2.30	1.50	1.75	2.16
Singapore	2.58	2.55	3.18	2.83	2.80
Thailand	2.78	2.13	2.50	2.50	2.51
Vietnam	2.90	2.45	2.43	2.79	2.65

Source: IHS Markit

Indonesia

Strengths and weaknesses

Strengths	Weaknesses
Indonesia is a politically stable and democratic country. Political issues will probably be resolved using legal or political means rather than violence.	Corruption is common across the Indonesian state and in public-private transactions, despite the efforts of the Corruption Eradication Commission to prosecute senior officials.
A pro-business and hands-on president, soon to commence his second term, is committed to improve the business operational environment for investors and has undertaken reform to improve investor confidence.	Inefficient bureaucracy and contradictory regulations between the central and local governments continue to delay project clearances.
A solid 5% annual reported growth during the past 12 years has expanded the consumer market in a country of 250 million people.	Despite improvements in transport infrastructure under the current government, Indonesia requires a broad infrastructure upgrade to support further economic growth.
Indonesia is a young country with the average age of 29 for the population, providing an abundant workforce.	Restrictive manpower regulations mean hiring and firing can be difficult and costly.

Source: IHS Markit © 2020 IHS Markit

Politics, second term for Jokowi: President Joko "Jokowi" Widodo began his second and final five-year term in October 2019 following his victory in the April 2019 presidential election. His appointment of Prabowo Subianto, his sole rival in the presidential election, as defence minister means that the governing coalition now controls 74% of seats in parliament. This large majority should help the government pass contentious bills more rapidly.

Investment has increased, but corruption is still an issue: Government plans to attract greater foreign direct investment include the liberalization and streamlining of employment regulations. Statements from senior government officials indicate that the new law would include provisions that would make it less costly for companies to hire and dismiss employees as well as a new formula to determine annual minimum wage increases. Government attempts to reduce workers' benefits are likely to be opposed by labor unions and increase the likelihood of strikes and protests

GDP growth to slow: Although Jokowi had hoped to achieve 7% real GDP during his five-year term, this target will be missed. Indonesian real GDP growth has expanded 5% in 2019 because of the rupiah stabilization policies implemented in 2018, including interest rate rises, import tariffs on consumer goods, and delaying capital goods imports for investment projects. With monetary policy easing in 2019 and the government expected to return its focus to infrastructure projects, growth is expected to pick up in 2020.

Terrorist attacks are possible: The deadliest terrorist attack on Indonesian soil (since the 2005 Bali bombings) occurred in May 2018 in East Java province, where three attacks killed eight people and injured 41 others. These attacks indicated a more recent, limited escalation in pro-Islamic State activity. They have also signalled improved coordination among domestic cells, but attack capability has not improved. Although Indonesia has enhanced its counterterrorism efforts substantially during the past decade, further low-capability attacks remain probable.

Indonesia top-10 sectors ranked by value added	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Agriculture, forestry, and fishing	136.1	4.0	13.2
2. Construction	109.1	5.6	10.6
3. Wholesale trade, except of motor vehicles and motorcycles	73.5	5.5	7.2
4. Public admin and defense, other services	58.0	6.4	5.6
5. Mining of metals and stone	57.2	-2.0	5.6
6. Retail trade, except of motor vehicles and motorcycles	47.2	5.3	4.6
7. Manufacture of food products	42.0	3.8	4.1
8. Education	34.6	6.1	3.4
9. Telecommunications	33.2	9.0	3.2
10. Financial service activities, except insurance and pension funding	30.9	5.0	3.0
Top-10 total	**621.7**		**60.5**

Source: IHS Markit

Malaysia

Strengths and weaknesses

Strengths	Weaknesses
Institutional stability is robust, as demonstrated by the smooth transition to Prime Minister Mahathir Mohamad after a surprising election victory.	Alleged high-level government corruption has eroded trust among middle-class urban Malaysians.
Excellent infrastructure, particularly in peninsular Malaysia.	A reported shortage of highly skilled workers.
Labor strikes are rare due to good industrial relations.	Foreign ownership restriction remains in sectors such as trading and oil and gas.
A diversified, upper-middle-income economy with a long record of steady growth.	The government's affirmative action policy means government contracts are often awarded to Malays and other indigenous Malaysians.

Source: IHS Markit

Politics: Prime Minister Mahathir Mohamad's four-party governing coalition, Hope's Pact (Pakatan Harapan: PH), is fragile despite its comfortable majority. PH's biggest constituent party, the People's Justice Party (Parti Keadilan Rakyat: PKR), is split, and the disunity within the PKR has increased uncertainty over the timing of Mahathir's planned succession and the identity of his successor. The opposition has become stronger following the formalization of the alliance between two Malay-based parties, UMNO and PAS.

Privatization in aviation and transport: PH has maintained Malaysia's broadly liberal economic policy framework following its 100-day program. PH is now likely to revise minimum wage levels and pursue privatization in sectors, particularly aviation and transport. Negotiations around suspended China-backed Belt and Road Initiative projects will continue into the second year, but there is increasing intent to revive suspended projects. The ongoing 1MDB trial is likely to target several private-sector companies, mostly in banking and auditing.

Government interested in attracting higher-value industries: The government's plan to reduce the number of low-skilled foreign workers over the next five years is likely to affect the construction and plantation sectors. It also plans to retrain domestic workers to improve worker productivity as part of a policy to attract higher-value industries such as electronics, which will benefit from tax breaks.

GDP growth to slow: Real GDP growth will slow from 4.7% in 2018 to 4.5% in 2019, as the China-US trade conflict reduces exports. The government's goal to pursue fiscal consolidation and reduce debt amid the current macroeconomic landscape is a challenging task. In particular, the lack of revenue diversification would remain a key concern for investors, as the revenue slack resulting from abolition of Goods and Services Tax (GST) in May 2018 is yet to be filled by the Sales and Services Tax (SST). This increases the reliance on petroleum revenues to fill the gap. Slowdown in China and the ongoing China-US trade frictions will continue to weigh on the growth prospects for Malaysia's domestic economy. Regardless of the impetus from fiscal and monetary policies, IHS Markit remains wary of the outlook, with risks tilted to the downside.

Terrorism attacks are likely, but mitigated by effective counterterrorism police: There is a persistent risk of low-capability terrorist attacks in Malaysia. However, such risks are mitigated by a highly effective counterterrorism police capacity. The Malaysian police periodically arrest people suspected of planning terrorist attacks.

Malaysia top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Public admin and defense, other services	38.8	5.2	11.1
2. Wholesale trade, except of motor vehicles and motorcycles	30.3	4.3	8.6
3. Agriculture, forestry, and fishing	29.7	3.8	8.4
4. Extraction of crude petroleum and natural gas	25.9	-0.6	7.4
5. Retail trade, except of motor vehicles and motorcycles	19.2	6.0	5.5
6. Construction	17.0	1.9	4.8
7. Financial service activities, except insurance and pension funding	14.4	4.0	4.1
8. Telecommunications	14.2	6.6	4.1
9. Manufacture of refined petroleum products	13.0	2.6	3.7
10. Accommodation and food service activities	11.7	8.2	3.3
Top-10 total	**214.1**		**61.0**

Source: IHS Markit

Myanmar

Strengths and weaknesses

Strengths	Weaknesses
Myanmar's abundance of under-utilized natural resources renders it an attractive country for foreign investment.	The government's policy priorities lack detail, and the bureaucracy severely lacks capacity.
Myanmar's emergence from decades of international isolation after the lifting of numerous sanctions in April 2013 has created demand for consumer goods and strong growth prospects in sectors such as retail and telecom.	Transport and communications infrastructure is poor in most of the country, except Yangon and the capital Naypyidaw.
Investments are likely to be relatively secure provided that foreign investors undertake joint ventures with well-connected domestic firms and individuals.	Large sectors of the economy will continue to be ring-fenced to protect the vested economic interests of local businesses affiliated with political or military elite.
Labor rates are likely to be competitive compared with regional neighbors.	Ethnic insurgencies continue in several states, increasing the risk of business disruption because of attacks on commercial assets, such as oil and gas pipelines and mining operations.

Source: IHS Markit

Government is stable: Although State Counsellor Aung San Suu Kyi has received international condemnation for the Rohingya crisis, her National League for Democracy (NLD) government is stable domestically. Myanmar's parliament is discussing proposed constitutional changes to reduce the military's powers, which is likely to reduce the military's support for the civilian government in the 2020 parliamentary elections.

Foreign investment is delayed: Liberalization under Suu Kyi's government has been limited. In November 2019, the government said that it would allow full foreign investment in large mining operations. IHS Markit sources have identified 10-12 major domestic companies that will be able to restrict foreign participation in their respective sectors by lobbying local authorities to delay the granting of licenses and land leases. Firms also face rising reputational risks in Myanmar following a UN report that accused the military of using its business interests to fund its operations that violate human rights.

GDP growth is strong: Myanmar's real GDP growth is expected to remain strong and is projected to settle in the high 6% range in the coming years, supported by private and public investment in infrastructure services and non-commodity sectors. The broader economy has largely remained unaffected by the Rohingya crisis, although this has triggered some uncertainty in foreign investor sentiment. A probable threat of resumed trade sanctions against Myanmar is likely to intensify bilateral trade with China, which is already Myanmar's biggest trading partner. In September 2018, both countries signed a memorandum of understanding to operationalize the China-Myanmar Economic Corridor.

Terrorism risk is likely: In Rakhine, Shan, and Kachin states, ethnic minorities continue armed insurgencies for territorial control. These involve artillery and small- arms fire, with the military occasionally conducting airstrikes involving jet aircraft and helicopter gunship fire, often displacing thousands of people. These conflicts are likely to remain intensified, posing disruption risks to road cargo transport and infrastructure development in the affected states, particularly targeting the China Myanmar Economic Corridor and India-backed multimodal transport projects.

Philippines

Strengths and weaknesses

Strengths	Weaknesses
A rapidly growing consumer market as a result of strong economic growth during the past six years.	A high-risk security environment, particularly in Mindanao, where insurgent groups target businesses for extortion. Very high kidnap and ransom risks in parts of Mindanao and the Sulu archipelago.
The Philippines is a young country with a median age of 23, providing a large workforce.	Foreign companies only permitted minority ownership in natural resources and public utilities.
English is widely spoken, providing a large pool of labor in sectors such as business-process outsourcing.	An inefficient and corrupt bureaucracy.
The government aims to reduce the corporate income tax rate from 30% in 2020 to 20% by 2030.	Infrastructure deficiencies such as unstable power supply pose operational risks to businesses.

Source: IHS Markit

Politics: The sweeping victory of Senate candidates aligned to President Rodrigo Duterte in the May 2019 midterm elections consolidates Duterte's authority within Congress. He has also extended his influence over the judiciary, as all but four Supreme Court judges were appointed by him. The House of Representatives is also dominated by Duterte's supporters and will lend stability to the remainder of his term.

Government aims to lower very high tax rate: The Philippines has the highest corporate tax rates in Southeast Asia, but the government aims to lower rates from 30% to 20% by 2030, while eliminating exemptions and incentives for large companies. The Duterte government intends to pass four tax reform packages. The first, the Tax Reform for Acceleration and Inclusion (TRAIN) Act, reduced personal income tax but increased consumption tax. However, the government is encountering greater difficulty in progressing its second round of tax reform legislation, which focuses on corporate tax cuts.

Additional fiscal revenue needed for ambitious infrastructure plans: Additional fiscal revenues will be needed increasingly to fund ambitious infrastructure development plans that include a new inter-city rail, an industrial park, water management facilities, power generation plants, and flood controls.

Terrorist attacks likely: Islamist militant capability has been degraded by increased pressure from the Philippine military; although they will mount small IED attacks against security forces and engage in small-arms firefights in Mindanao, they are unlikely to conduct large assaults against cities, as in the Islamic State occupation of Marawi in 2017, during the next six months. The communist New People's Army is active across the Philippines, but especially in Mindanao where they conduct IED, arson, and small-arm attacks against businesses, typically for refusing to pay "revolutionary taxes".

Philippines top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Real estate activities	43.0	4.2	13.0
2. Agriculture, forestry, and fishing	30.0	2.8	9.1
3. Wholesale trade, except of motor vehicles and motorcycles	29.3	7.0	8.8
4. Retail trade, except of motor vehicles and motorcycles	26.4	7.0	8.0
5. Construction	25.3	3.8	7.6
6. Financial service activities, except insurance and pension funding	19.9	9.0	6.0
7. Public admin and defense, other services	11.7	9.1	3.5
8. Education	11.3	6.3	3.4
9. Electricity, gas, steam, and air conditioning supply	9.3	5.5	2.8
10. Insurance, reinsurance, and pension funding, except compulsory social security	6.2	9.0	1.9
Top-10 total	**212.5**		**64.2**

Source: IHS Markit

Singapore

Strengths and weaknesses

Strengths	Weaknesses
Robust political stability ensures consistent long-term policymaking. The government actively seeks to attract foreign investment, and the legal and tax systems are business friendly. Labor unrest and corruption risks are very low. Crime rates are low, and there are no significant internal or external security threats.	Land is scarce; therefore, congestion will increase as the government seeks to expand the population to 6.9 million by 2030, mainly through immigration. Rising costs of living and population pressures have caused public dissatisfaction, which the government will come under increasing pressure to address. The export-oriented economy is prone to periodic slowdowns and recessions because of the weak economic performance of key export markets such as the United States and Europe. Increasing immigration levels risk social harmony, but civil unrest risks remain generally low.

Source: IHS Markit

Economic growth outlook is uncertain: Singapore's economic growth in the third quarter of 2019 surpassed official flash estimate of 0.1% y/y, buoyed by a better-than-expected showing in industrial activity, thereby taking Singapore away from recession risk. Although there are signs of bottoming out in the manufacturing sector, the outlook remains challenging as uncertainty in China-US trade relations continues to linger with flip-flops in negotiations and business confidence in general remains subdued, as the Purchasing Managers' Index (PMI) data continues to sink. In addition, slowdown in China remains a concern.

Near-term export outlook may be impacted by China and US trade conflicts: IHS Markit assesses that we are seeing the ill effects of a long-expected correction in semiconductor and electronics demand and production after the sustained stretch of growth and build-up of inventories. We are also concerned that the recent ratcheting up of the trade conflict between China and the United States will exacerbate matters, especially considering the focus on high-technology goods by the United States, thereby weighing on the near-term export outlook.

Stable policy reform: Prime Minister Lee Hsien Loong is likely to hand over his position to Minister for Finance Heng Swee Keat, who was also appointed as deputy prime minister in May 2019, during the next parliamentary term. Heng and the PAP are likely to follow a largely stable policy platform, seeking to continue developing a technology and services-driven economy rather than a merchandise-export-led economy reliant on cheap foreign labour. A parliamentary election is likely in 2020, and the ruling PAP is well-placed to win.

Focus on transforming to knowledge-based economy: Government policy has been working for several years to progressively transform the economy into more of a knowledge-based economy with incentives put in place to induce extra investment into labour-saving and other investments focused on developing a more knowledge-based economy. The uptake has been weak with small and medium-sized enterprises (SMEs) lagging behind larger firms, but the government appears to be better targeting its policies for this transition to gain momentum. The 2019 budget continued to provide investment support for firms to invest in innovative/technological solutions.

Singapore top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Real estate activities	49.6	3.2	15.2
2. Wholesale trade, except of motor vehicles and motorcycles	30.9	0.3	9.5
3. Financial service activities, except insurance and pension funding	28.2	2.1	8.6
4. Retail trade, except of motor vehicles and motorcycles	20.7	-1.2	6.3
5. Public admin and defense, other services	20.1	2.4	6.1
6. Manufacture of electronic components and boards	15.9	-3.1	4.9
7. Insurance, reinsurance, and pension funding, except compulsory social security	14.3	1.8	4.4
8. Construction	13.0	1.5	4.0
9. Land transport	11.2	0.4	3.4
10. Human health and social work activities	9.2	1.4	2.8
Top-10 total	**213.0**		**65.2**

Source: IHS Markit

Thailand

Strengths and weaknesses

Strengths	Weaknesses
Continuation of the pro-business military-led government has maintained peace in most parts of the country. The tax system is modern, and the structure is relatively simple. Labor strikes are rare and relations between businesses and unions are mostly amicable. The government is embarking on a major upgrade in transport and power infrastructure.	The new government is likely to face significant infighting in parliament and legal challenges to its right to govern, leading to a high likelihood of delays in the policymaking process. Corruption is widespread, reaching into government offices and law-enforcement authorities. An overhaul of the tax system is being discussed, which will probably increase pressure to raise the tax base and uncertainty over the future tax policy. Wages are high compared with neighboring countries that rely on low-skilled manufacturing. Projects under Thailand's development plan are likely to face opposition scrutiny, especially those that have been fast-tracked and that bypassed normal legal processes.

Source: IHS Markit © 2020 IHS Markit

Military-led government: Bhumjaithai (BJT) and Democratic Party's (DP's) decision to join the pro-military coalition led by the Palang Pacharath Party (PPRP) has confirmed the continuation of incumbent prime minister Prayuth Chan-ocha and a military-led civilian government. Prayuth's core confidants remain in his new cabinet, including Anupong, Prawit, Wissanu, and Somkid. However, they no longer have influence in army affairs, indicated by the appointment of members of the "Kongsompong" army faction, outside of Prayuth's influence and loyal to current army chief Apirat, to senior army positions.

Protests risks are high: Protest risk in Thailand is elevated because of increasing economic grievances and the government's continued targeting of opposition parties. Opposition parties, particularly the FWP, face a high risk of party dissolution in the three-month outlook. Areas exposed include central Bangkok's commercial and government districts. The deployment of thousands of additional military personnel implies that protests are unlikely to threaten more than a few hours of traffic disruption in Bangkok. Risks to property from rioting are low; a repeat of the political violence in 2010 is highly unlikely.

Strong economy with highest minimum wages: Despite continuous downward revisions of economic growth forecasts by the Thai government, partly because of the global economic slowdown and China-US trade disputes, the economy enjoys strong fundamentals. A flexible exchange rate, high foreign reserves, and relatively low foreign debt provide adequate buffers against external shocks. Moderate public-sector debt, a wide investor base for Thai debt, and well-capitalized commercial banks provide additional layers of protection. However, rising wages threaten the export-dependent economy's regional competitiveness, particularly in low-skilled manufacturing. Thailand has the highest minimum wage among ASEAN countries.

Terrorist attacks are expected to decline: Malay-Muslim insurgents remain active in the four southern provinces, mainly targeting security personnel with crude improvised explosive devices and increasingly attacking civilian small businesses. However, the intensity of violence will probably continue declining as improvements in infrastructure facilitate better intelligence-led counter-insurgency and militant groups' transition toward regional political engagement.

Thailand top-10 sectors ranked by value added	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Wholesale trade, except of motor vehicles and motorcycles	44.9	7.0	8.9
2. Agriculture, forestry, and fishing	43.8	-0.3	8.6
3. Public admin and defense, other services	36.5	0.7	7.2
4. Financial service activities, except insurance and pension funding	30.8	4.4	6.1
5. Accommodation and food service activities	26.3	4.2	5.2
6. Education	19.9	1.8	3.9
7. Retail trade, except of motor vehicles and motorcycles	16.3	7.0	3.2
8. Wholesale and retail trade and repair of motor vehicles and motorcycles	16.2	7.0	3.2
9. Land transport	15.1	6.3	3.0
10. Manufacture of food products	13.9	-0.7	2.7
Top-10 total	**263.5**		**52.0**

Source: IHS Markit

Vietnam

Strengths and weaknesses	
Strengths	**Weaknesses**
The Communist Party of Vietnam's long hold on power facilitates a stable policy environment. The government's signing of international free trade deals points to a more open economy that allows greater foreign private sector participation. The government cut down the corporate tax rate further to 20% from January 2016, and tax rates will probably remain stable. Vietnam is generally a safe country in which to do business, with minimal terrorism risks and threats to personal security.	Unsanctioned wildcat strikes are becoming increasingly common in the textiles and light manufacturing sectors, although they are typically short-lived and localized. Bribery is common to public procurement contracts. In general, companies' trust in the state in dealing with corruption is limited. Employee fraud in daily transactions is common, including overstated invoices, facilitation payment to speed up government procedures, and taking kickbacks from suppliers. Infrastructure development has not kept up with economic growth, leading to costly bottlenecks. The communist government exerts heavy influence on the judiciary at all levels, and foreign investors are unlikely to receive impartial treatment in legal disputes involving the state or major state-owned enterprises.

Source: IHS Markit

Strong economic expansion: Preliminary official data showed that Vietnam's economy accelerated to 7.3% y/y in the third quarter of 2019, up from a revised 6.7% y/y in the second quarter. On the external front, net exports will remain a drag on GDP growth, because real imports are projected to expand at a faster pace than real exports.

New leadership likely to liberalize economy: Vietnam's one-party system is stable and enables policy continuity across governments. Secretary-General of the Communist Party of Vietnam Nguyen Phu Trong is likely to step down after two terms in office in 2021 when the party holds its next five-yearly congress. The competition to replace Trong will lead to wider changes in the party leadership. However, despite the personnel changes, the next Vietnamese leadership is likely to continue its policy to further liberalize the economy.

Foreign investment is growing: New trade agreements and loose monetary policy will facilitate foreign investment. Vietnam has implemented the Comprehensive and Progressive Agreement for Trans-Pacific Partnership from end-2018, and it is a prospective member of the ASEAN-led Regional Comprehensive

Economic Partnership. Its banks have recently rapidly extended credit, and the sector's non-performing-loan ratio is close to 10%. Vietnam has built foreign reserves from less than USD 13 billion in 2010 to USD 60 billion in 2018 to defend its US dollar-pegged currency.

Renewed privatization drive is needed: The lack of visible progress on privatization is a downside risk to the outlook. The public sector represents about one-third of the overall economy, as evidenced in the dominance of state-owned enterprises (SOEs). Privatising SOEs in manufacturing could unleash considerable productivity gains and support efforts to accelerate economic growth. Vietnamese leaders have promised to accelerate the country's stalled privatization drive, yet little material progress has been made.

One of the most attractive markets: Vietnam will remain one of the world's most attractive emerging markets in the near term as rapid growth in manufacturing exports and buoyant foreign direct investment (FDI) will fuel rapid growth. The economy has proven resilient, despite looming downside risks. Vietnam's export and industrial production performance has surprised on the upside in 2019, despite deepening trade tensions between China and the US. The trade war seems to have accelerated a longstanding trend in which many companies are shifting production to Vietnam to avoid higher wages as well as labor shortages elsewhere in the region.

Vietnam top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Agriculture, forestry, and fishing	34.9	1.9	16.3
2. Extraction of crude petroleum and natural gas	15.7	-1.4	7.4
3. Wholesale trade, except of motor vehicles and motorcycles	15.3	9.2	7.2
4. Construction	14.3	7.3	6.7
5. Manufacture of communication equipment	12.5	1.7	5.9
6. Real estate activities	11.1	4.5	5.2
7. Public admin and defense, other services	10.8	2.5	5.1
8. Electricity, gas, steam, and air conditioning supply	10.6	10.2	5.0
9. Manufacture of food products	10.4	9.7	4.9
10. Accommodation and food service activities	9.1	7.5	4.2
Top-10 total	**144.8**		**67.8**

Source: IHS Markit

Region 4 – Oceania

Oceania	Economy	Politics	Infrastructure	Competence	Overall grade
Australia	2.75	2.95	3.23	3.15	3.01
New Zealand	1.98	2.88	2.73	2.76	2.54

Source: IHS Markit

Australia

Strengths and weaknesses

Strengths	Weaknesses
Safe and secure place to do business with a transparent tax and legal system.	Factional conflict within the major parties has created political instability.
Transparent, stable democratic government, with changes taking place in an orderly fashion through regular elections.	Transport and infrastructure occasionally vulnerable to natural disasters such as bushfires and floods, which cause moderate disruption several times per year.
Globally significant mineral resources, well-positioned to capture rising Asian markets.	Distant from traditional Western markets and dependent on shipping for access to markets.
Stable legal and regulatory environments for foreign investment match government's welcoming attitude, although Chinese investment receives heightened scrutiny.	Dependence on the mining sector is weakening other sectors, supporting a stronger currency, and increasing the economy's exposure to exogenous demand and price shocks.

Source: IHS Markit © 2020 IHS Markit

Political: The Liberal-National coalition returned to government in the 18 May 2019 election with a slim majority, but the result improves both government and policy stability. Prime Minister Scott Morrison had consolidated his leadership, but his authority has been significantly eroded by the state's response to bushfires since late 2019 combined with the government's support for coal mining.

Economy: The government will benefit politically from the economy's performance, although we expect real GDP growth to slow from 2.7% in 2018 to 1.8% in 2019 in response to weaker household consumption and home construction activity.

Fiscal and monetary policy: Weak inflation reflects gradual wage growth, retail-sector competition, and lower housing rents. Fiscal spending has been bolstered by strong revenues, while approved adjustments to personal income tax brackets could provide minor fiscal stimulus.

Risks and terrorist attacks: A terrorist attack is probable, but the government is continually adjusting national security legislation to improve law enforcement countermeasures. The most likely threat is from low-capability, domestically based single or small groups of actors inspired by social media perpetrating attacks in Melbourne or Sydney. Such individuals and groups would probably attempt small-scale attacks requiring limited planning and expertise, aimed at causing civilian casualties. However, police counter-terrorism capability is robust, and most plots probably will be disrupted during the planning stages.

Australia top-10 sectors ranked by value added	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Real estate activities	160.0	2.4	11.7
2. Construction	111.1	-2.9	8.2
3. Human health and social work activities	104.8	6.0	7.7
4. Public admin and defense, other services	95.7	3.8	7.0
5. Financial service activities, except insurance and pension funding	91.3	2.5	6.7
6. Mining of metals and stone	73.7	5.5	5.4
7. Education	68.5	1.9	5.0
8. Wholesale trade, except of motor vehicles and motorcycles	55.1	1.5	4.0
9. Retail trade, except of motor vehicles and motorcycles	47.7	1.6	3.5
10. Extraction of crude petroleum and natural gas	39.6	12.0	2.9
Top-10 total	**847.4**		**62.2**

Source: IHS Markit

New Zealand

Strengths and weaknesses	
Strengths	**Weaknesses**
Stable and transparent political system.	Aging workforce and relatively small domestic market.
Low regulatory burden on business.	Small domestic economy, limited economies of scale.
Competitive tax regime.	Environmental legislation likely to further tighten.
Government welcomes foreign investment; proximity to Asian market.	Far from European markets.

Source: IHS Markit

Economy: New Zealand's GDP growth has softened over 2019 as investment expenditures have weakened with the easing of earthquake-related reconstruction. The rapid increase in inward migration since 2013 in response to reconstruction needs has created new risks for New Zealand's small economy. If construction work does generate significant outward migration, this will weaken the outlook for house prices and household spending. Considering that household spending accounts for almost 58% of GDP, this represents a significant risk to the economy.

Fiscal and monetary policy: Near-term fiscal policy will be loose, and monetary policy will stay on hold as inflation remains low and robust employment growth continues. Monetary policy is likely to remain accommodative into 2020 to buffer the economy from near-term risks including the slowing of the construction sector.

Politics: Although no party won a majority of seats, the Labour party formed the government following the September 2017 election after it reached a coalition agreement with New Zealand First (NZFP) and the Green Party. The Labour government continues to pursue its agenda to strengthen collective bargaining and tighten regulations to reduce carbon emissions.

Political risk: The small-arms attack on two Christchurch mosques by a right-wing militant in March 2019 was exceptional. The government implemented legislation in early April that bans the semi-automatic rifles that were used by the gunman. If further right-wing attacks inspired by the Christchurch incident take place, these would probably be low capability, most likely targeting mosques or Muslim individuals. There is also a risk of reprisal attacks by Islamists or Islamic State-inspired individuals, but these would also probably be of low capability.

New Zealand top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Real estate activities	24.0	0.9	12.7
2. Construction	12.7	2.9	6.7
3. Human health and social work activities	12.4	3.7	6.6
4. Public admin and defense, other services	12.1	3.4	6.4
5. Wholesale trade, except of motor vehicles and motorcycles	11.1	2.9	5.9
6. Agriculture, forestry, and fishing	10.6	0.1	5.6
7. Legal, accounting, consultancy	9.5	3.1	5.0
8. Education	8.7	2.2	4.6
9. Retail trade, except of motor vehicles and motorcycles	7.7	2.3	4.1
10. Financial service activities, except insurance and pension funding	7.3	3.3	3.9
Top-10 total	**115.9**		**61.4**

Source: IHS Markit

Region 5 – Middle East and North Africa

Middle East and North Africa	Economy	Politics	Infrastructure	Competence	Overall grade
Algeria	1.58	1.90	1.63	1.74	1.69
Egypt, Arab Rep.	2.50	2.05	1.98	1.92	2.14
Israel	3.03	2.40	2.63	3.16	2.81
Qatar	1.40	1.85	2.90	2.50	2.16
Saudi Arabia	2.23	2.15	2.70	2.33	2.37
United Arab Emirates	2.45	1.80	3.33	2.95	2.68

Source: IHS Markit

Algeria

Strengths and weaknesses

Strengths	Weaknesses
Non-payment risks are mitigated by the government's large reserves and low levels of external debt.	Operating costs and delays are increased by security considerations and often tortuous bureaucracy.
Infrastructure in the urbanized north is of generally good quality.	Government has first right of refusal on any sale of foreign owned assets in Algeria.
High degree of policy continuity likely, even if president changes.	Industrial action is common and can impact all sectors.
Competition law is largely harmonized with EU legislation and jurisprudence.	Fifty-one percent Algerian ownership is required for all new foreign investments in the energy sector.

Source: IHS Markit

Politics and protests: The Constitutional Council confirmed on 16 December the victory of Abdelmadjid Tebboune at the presidential election held on 12 December, with 58.13% of votes cast. The interim government held this election despite the 10-month protest movement calling for its boycott. Similar to any other candidate sponsored by the interim administration, Tebboune is rejected by protesters given his past association with ousted president Abdelaziz Bouteflika. This was indicated by a record-high abstention rate of 60% at the election, and post-election protests across Algeria.

Terror risk: Algeria's security forces' operations have effectively contained the domestic jihadist threat, reducing the likelihood of a successful attack in a major city, but the current political instability slightly increases the likelihood of jihadists seeking to exploit popular grievances. Risk of transnational jihadist penetration from Libya, Mali, and Tunisia remains high.

Economy: Algeria experienced economic slowdown during 2018 (with GDP growth estimated at 1.1%), before recovering to a forecast 1.7% growth level in 2019. The Central Bank of Algeria will likely continue financing its fiscal deficit (of about 10% of GDP in 2019) unconventionally by printing money. So far, the government has avoided inflationary consequences by increasing minimum mandatory financial-sector reserves requirements to drain banking liquidity, but this approach is unlikely to prove sustainable. The economic outlook is subject to the electoral process and policy stance of the new president.

Egypt

Strengths and weaknesses

Strengths	Weaknesses
Spurred by a need to attract investment, the regulatory environment relating to business organizations and foreign investors will probably be amended to reduce bureaucratic inefficiency in 2020. High degree of policy continuity is likely, even in the unlikely event of a change in president, with military and parliamentary business interests favored. The tax environment is favorable for foreign investors, given that the generous deductions and allowances made in calculating taxable profit make the effective rate of tax low by international standards.	Complexity and excessive bureaucracy plague the tax and regulatory regimes, hampering the liberalization of the wider business environment in Egypt. These issues affect the personal and corporate tax and regulatory frameworks. Anti-corruption efforts are hampered by the existence of multiple regulatory bodies that are not independent from the executive. Corruption investigations tend to lead to individual prosecutions rather than systemic reform, with bribery still prevalent in state institutions. The military's increasing presence in most economic sectors is likely to hamper the liberalization of the business environment and likely constrain private-sector competitiveness, but large protests, involving more than several dozen people, are unlikely to take place against military corruption in 2020.

Source: IHS Markit

Protest are unlikely to continue: Protests against falling living standards and accusations of corruption around President Abdel Fattah el-Sisi are unlikely to continue into 2020. Amendments to the Egyptian constitution in 2019 extended Sisi's second term to six years and allow him to stand for a final, third term, meaning he is highly likely to be in office until 2030. In addition, the amendments subsume the judiciary under the executive and increase the formal role of the military within state institutions.

Efforts to restore investor confidence: A cabinet reshuffle on 22 December 2019 indicates that likely priorities for Sisi will include attempting to restore investor confidence in the private sector, particularly manufacturing, banking privatization, and hydrocarbon exploration and production, and minimizing government spending on subsidies. GDP growth is projected to increase from 5.3% currently to 5.5% in fiscal year 2019-20, reflecting positive developments in the energy and manufacturing sectors.

Private sector participation for contracts faces hard military-owned companies' competition: The risk of payment delays to government contractors and foreign energy firms has declined in the one-year outlook as Egypt's foreign currency reserves have improved and exceeded pre-revolution levels. Statements from Sisi about improving private-sector participation in the economy are unlikely to be realized and contractors are likely to find it difficult to compete with military-owned companies for contracts in the construction, manufacturing, and agricultural sectors.

Political unrest risk: Sisi sidelined opponents from the military before the 2018 presidential election, and this has almost certainly discouraged future meaningful opposition figures from emerging from the armed forces. Reshuffling of senior positions within the military and intelligence services reduces the likelihood of a coup being attempted, and even more so of one being successful.

Reduced attacks: Successful attacks against security forces and civilians in north Sinai have decreased in frequency, and this is likely to continue while military operations remain ongoing; attacks are unlikely to pose significant threat to south Sinai. Attacks in the Western Desert are likely to target state representatives and security forces.

Egypt top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Agriculture, forestry, and fishing	27.6	3.0	11.4
2. Public admin and defense, other services	25.3	-1.1	10.4
3. Manufacture of refined petroleum products	21.6	5.3	8.9
4. Mining of metals and stone	19.3	-3.1	8.0
5. Construction	14.6	8.7	6.0
6. Retail trade, except of motor vehicles and motorcycles	14.2	0.9	5.9
7. Accommodation and food service activities	13.2	4.2	5.5
8. Wholesale trade, except of motor vehicles and motorcycles	11.1	4.9	4.6
9. Financial service activities, except insurance and pension funding	10.7	4.6	4.4
10. Education	9.7	6.2	4.0
Top-10 total	**167.3**		**69.2**

Source: IHS Markit

Israel

Strengths and weaknesses

Strengths	Weaknesses
Israel's labor force is highly skilled and well-educated, with a particular strength in technology and scientific research. The legal system is relatively transparent and free of corruption. The Business Concentration Law of 2013 dismantles multi-tiered corporate holdings to encourage competition, creating opportunities for foreign investment, particularly in the real estate and construction sectors.	Enforcing contracts can often be time-consuming and expensive. Israeli bureaucracy can be cumbersome and difficult to navigate. Businesses with connections to the settlements are at risk of EU boycott or sanctions. Periodic bouts of conflict with Hamas in Gaza risk damage to assets in areas within perimeters of short-range missiles, such as Ashkelon Port, and temporary airport closures.

Source: IHS Markit

Politics: Israel is likely moving toward a third consecutive election in early 2020 after both incumbent Prime Minister Benjamin Netanyahu and his main rival Benny Gantz failed to form a governing coalition following the September election. Netanyahu, who was indicted with corruption charges on 21 November, is increasingly likely to get ousted from the leadership of the center-right Likud, likely ending his political career. A third election would extend the current policy deadlock into 2020, but any successor to Netanyahu would be unlikely to implement significant changes in economic or security policy.

Attacks and ceasefire: A ceasefire arrangement between Israel and Hamas arranged in May 2019 is likely to hold with the support of Egyptian mediation and Palestinian Gulf-based donors, including Qatar and Saudi Arabia, but is likely dependent on the willingness of Israel to ease the economic boycott of Gaza, albeit with sporadic rocket fire at civilian settlements around the Gazan border. There is a high risk of low-capability attacks in Jerusalem and the West Bank.

Unrests in the region and risks to civilian infrastructure: Israeli willingness to use significant force against Hizbullah and allied Iranian non-state armed groups in southern Syria presents a very high risk of sudden escalation into broader conflict involving not just Syria, but also Lebanon. Israel's priority is to prevent Iranian expansion in southwest Syria near the occupied Golan Heights, and to prevent the transfer of weapons to Hizbullah through Syria. A war with Hizbullah would pose a very high risk of severe damage to civilian infrastructure in northern Israel. The US-Iran regional escalation is likely to intensify following the US assassination of Quds Force commander Qassem Soleimani; however, this is only likely to spill over to the Israel-Hizbullah axis in the event of US strikes on Iran.

Economy: Real GDP growth is forecast to be 3.3% in 2019 through a fairly broad-based economic expansion, with some upside by 2020 as additional natural gas capacity comes online.

Israel top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Real estate activities	38.5	3.5	11.6
2. Telecommunications	22.8	4.1	6.9
3. Education	21.6	2.0	6.5
4. Human health and social work activities	20.9	2.5	6.3
5. Public admin and defense, other services	19.9	2.5	6.0
6. Construction	19.5	4.0	5.9
7. Retail trade, except of motor vehicles and motorcycles	15.4	3.1	4.6
8. Wholesale trade, except of motor vehicles and motorcycles	13.7	3.5	4.1
9. Scientific research and development	11.7	3.4	3.5
10. Security, buildings, employment	10.7	3.7	3.2
Top-10 total	**194.6**		**58.5**

Source: IHS Markit

Qatar

Strengths and weaknesses

Strengths	Weaknesses
Qatar's legal system is reasonably mature with a relatively coherent body of modern statute law. Qatar has a low tax regime and one of the least stringent tax compliance regulations in the world. Expropriation risks or nationalization is unlikely as Qatar depends on foreign investment and holds shares in foreign companies and assets and is vulnerable to retaliation. Labor disputes and unrest are extremely uncommon and are likely to be dispersed quickly by security forces.	Bids for government contracts by non-Qatari-registered companies can be disregarded. This is more often than not the case. Government officials have significant leeway and little independent oversight in deciding exemptions. A dispute with and economic blockade by Bahrain, Egypt, Saudi Arabia, and the UAE has raised the risk of raw material shortages and construction delays if it should escalate to a full blockade. Excessive bureaucracy, nepotism, tight turnaround times, and changing project specifications commonly cause delays to projects and raise the risk of contractual disputes and cancellation risks. Reputational risks for companies in the construction sector will probably increase in the run up to the 2022 FIFA World Cup football tournament.

Source: IHS Markit

Stance on Islamist dissidents: The economic and diplomatic boycott of Qatar by Bahrain, Saudi Arabia, the UAE, and Egypt (GC3+1) will almost certainly continue in 2020, but there are indicators that the Saudi position is softening. Qatari Emir Tamim bin Hamad al-Thani is unlikely to concede to the key GC3+1 demands that Qatar renounce support for Islamist dissidents and distance itself from the Iranian government. Closer diplomatic relations with Iran are likely to mean Qatari assets are only directly targeted in the event of a war between the US and Iran in the Gulf.

Foreign investment: Qatar is likely to continue to improve the operating environment for foreign businesses, reducing the bureaucratic costs for foreign investment and gradually implementing a 2018 draft law allowing for 100% foreign ownership across all business sectors.

LNG exports: Qatar is the largest liquefied natural gas (LNG) exporter in the world. Qatar Petroleum will face increased competition for LNG sales worldwide, even as it boosts its own North Field production by 10%. The hydrocarbon sector represents 86.9% of Qatari merchandise exports, and this is unlikely to substantially decline, despite increasing competition globally.

Economy is strong with increase of foreign currency reserves: Although Qatar spent about USD40 billion to support its economy in the two months immediately following the boycott, foreign currency reserves have since recovered to pre-2017 levels. IHS Markit expects GDP to record 2.1% growth in 2020. Construction is expected to remain a major driver of the economy through 2021 as the government delivers the mega-projects necessary to host the FIFA World Cup in 2022.

Cargo risk delay: The land border with Saudi Arabia is likely to remain closed, and Qatar is prohibited from entering GC3+1 airspace and maritime ports, increasing transport costs and risk of cargo delay.

Qatar top-10 sectors ranked by value added	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Extraction of crude petroleum and natural gas	60.5	0.5	30.5
2. Construction	23.4	4.7	11.8
3. Public admin and defense, other services	17.4	2.3	8.8
4. Real estate activities	13.6	2.9	6.8
5. Financial service activities, except insurance and pension funding	11.3	2.7	5.7
6. Wholesale trade, except of motor vehicles and motorcycles	8.2	2.3	4.1
7. Retail trade, except of motor vehicles and motorcycles	6.9	1.6	3.5
8. Insurance, reinsurance, and pension funding, except compulsory social security	5.2	2.4	2.6
9. Manufacture of fertilizers and nitrogen compound	4.8	0.1	2.4
10. Human health and social work activities	3.8	2.7	1.9
Top-10 total	**155.1**		**78.0**

Source: IHS Markit

Saudi Arabia

Strengths and weaknesses	
Strengths	**Weaknesses**
Despite some credit issues, effective regulation and strong capitalization reduce financial sector risks. The government seeks to increase investment flows through public-private partnerships to keep projects active in line with the Vision 2030 goals. Despite the killing of Khashoggi in 2018, the consolidation of the crown prince's authority is unlikely to be challenged, increasing the likelihood that policymaking will remain consistent with his stated modernization efforts.	Economic and financial sector challenges include sizeable fiscal and external deficits, tighter financial liquidity, higher government fees on expatriates leading to a population fall, higher prices for government services, and regularly recurring arrears in state- and private-sector payments. Iran-backed attacks of hydrocarbon facilities, and Houthi UAV attacks on Riyadh and southern cities, including strategic infrastructure and hydrocarbon facilities, are likely to continue in the six-month outlook. The investment environment is made considerably less certain by the targeting of senior businessmen, media figures, and royals with extensive business interests. Non-Muslim, non-Arab foreigners are unlikely to be targeted.

Source: IHS Markit

Politics: Crown Prince Mohammed bin Salman has centralized political control. His willingness to detain and humiliate senior royal family members and businesspeople has likely intimidated any immediate challenge to his position, but the international criticism following the murder of dissident Jamal Khashoggi in October 2018 is likely to have undermined confidence in the crown prince among leading members of the Al Saud family.

Economy: IHS Markit expects a more prolonged and moderate recovery for the Saudi economy, with GDP growth of 1.2% in 2019, indicated by signals of lackluster performance in key non-oil sectors and oil market volatility. The latter should encourage OPEC and Saudi Arabia to reassess restraining output to support prices, posing downside risks to the growth outlook.

Foreign policy: Both of bin Salman's flagship foreign policy interventions – the boycott of Qatar and war against the Houthi militia in Yemen – have been costly and open-ended and are weakening close regional cooperation with the United Arab Emirates. It is increasingly likely that bin Salman will seek to ease the boycott and reduce the intensity of hostilities with the Houthi as Saudi Arabia hosts the G20 summit in 2020.

Risk of Iranian attacks is high: There is a high risk of Iranian attacks on Saudi energy assets following the US killing of Iran's Quds Force General Qassem Soleimani in Baghdad on 3 January. Without a definite promise of US support, it is very unlikely that Saudi Arabia's leadership would commit to military escalation or retaliation. Unlike attacks between May and September 2019, IHS Markit assesses that, given the willingness of the US to strike such a high-level Iranian target, Saudi Arabia is more likely to be emboldened to respond against Iran if attacked, raising the risk of escalation and full-scale confrontation.

Push to reduce dependency on oil: Bin Salman's Vision 2030 aims to reduce the Saudi economy's reliance on oil and the public sector for growth and employment, fostering development in mining, defense, retail, and renewable energy.

Saudi Arabia top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Extraction of crude petroleum and natural gas	232.3	-1.0	29.6
2. Public admin and defense, other services	138.7	4.9	17.7
3. Real estate activities	55.0	1.1	7.0
4. Construction	40.3	-0.1	5.1
5. Retail trade, except of motor vehicles and motorcycles	26.7	1.2	3.4
6. Wholesale trade, except of motor vehicles and motorcycles	25.8	0.2	3.3
7. Manufacture of refined petroleum products	20.0	-0.9	2.6
8. Human health and social work activities	17.6	5.6	2.2
9. Agriculture, forestry, and fishing	17.5	4.4	2.2
10. Accommodation and food service activities	17.3	2.9	2.2
Top-10 total	**591.1**		**75.4**

Source: IHS Markit

United Arab Emirates

Strengths and weaknesses

Strengths	Weaknesses
Although taxation is gradually being introduced for residents, corporate income tax is currently only charged on oil and gas or other extractive industries.	Legal matters complicated by the existence of federal, emirate, and sharia (Islamic law).
A number of free-trade zones offering additional business incentives exist.	"Emiratization" imposes quotas of UAE nationals, increasing operational costs.
Well-paid security forces, ongoing government security and defense investments, and extensive civil surveillance networks reduce the risk of successful militant attacks.	The UAE's zero-tolerance policy toward all Islamist groups is likely to drive some underground and increases detention risks for residents and is likely to continue to sour relations with Qatar.
Infrastructure is well-developed and investment is ongoing, most directly in Abu Dhabi and Dubai.	Foreign arbitral awards are rarely enforceable, and foreign creditors are likely to be at considerable legal disadvantage in the event of disputes or corporate insolvency.

Source: IHS Markit

Politics: The consolidation of power by Abu Dhabi Crown Prince Mohammed bin Zayed al-Nahyan means that there are unlikely to be significant shifts in domestic policy for the UAE, ensuring that the UAE de-escalates the potential threat of military confrontation with Iran in the Gulf while remaining the US's most reliable security partner in the region, and increasing oil exports to Asia. Abu Dhabi is likely to be more resistant than Saudi Arabia in ending the diplomatic and trade boycott of Qatar into 2020.

Economy: IHS Markit assesses that the UAE economy was strong in 2019 given fiscal stimulus in the two largest emirates, Abu Dhabi and Dubai. Abu Dhabi's USD13.6-billion stimulus package is likely to boost 2020 non-oil activity, while Dubai's preparations to host Expo 2020 drive investment in infrastructure and development projects.

Promoting investment in oil sectors: UAE policy measures aim to promote key non-oil sectors and attract investment to curb the country's oil dependence and create jobs, with new incentives offering 10-year residency visas for foreign investors and permitting 100% foreign ownership of companies. The continued development of the non-oil sector – which accounts for approximately 70% of GDP – reduces UAE's exposure to oil-market volatility.

Terrorists attacks: There is a high risk of Iranian attacks on Emirati marine and aviation energy assets following the US killing of Iran's Quds Force General Qassem Soleimani in Baghdad on 3 January. Without a definite promise of US support, it is very unlikely that the UAE's leadership would commit to military escalation or retaliation. The decision to reduce an operational footprint in Yemen in July 2019 and limited outreach with Iran on coastguard issues in the Gulf are probably attempts to reduce the Houthis' stated willingness to target strategic Emirati infrastructure, and de-escalate the risk of sudden war with Iran targeting the UAE's infrastructure.

United Arab Emirates top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Extraction of crude petroleum and natural gas	107.2	1.4	25.8
2. Construction	34.1	4.8	8.2
3. Public admin and defense, other services	29.7	1.8	7.2
4. Wholesale trade, except of motor vehicles and motorcycles	22.4	2.1	5.4
5. Financial service activities, except insurance and pension funding	22.2	2.6	5.3
6. Real estate activities	21.5	1.7	5.2
7. Retail trade, except of motor vehicles and motorcycles	20.3	1.8	4.9
8. Telecommunications	15.4	5.0	3.7
9. Insurance, reinsurance, and pension funding, except compulsory social security	10.5	3.3	2.5
10. Accommodation and food service activities	10.4	3.2	2.5
Top-10 total	**293.8**		**70.6**

Source: IHS Markit

Region 6—Sub-Saharan Africa

Sub-Saharan Africa	Economy	Politics	Infrastructure	Competence	Overall grade
Angola	1.35	1.98	1.18	1.41	1.43
Congo	2.38	2.28	1.48	1.50	1.91
Ethiopia	2.45	1.90	1.53	1.92	1.96
Kenya	1.78	2.53	1.93	2.41	2.10
Nigeria	2.35	2.80	1.68	1.50	2.07
South Africa	2.10	2.38	2.98	3.21	2.64
Sudan	1.80	1.90	1.23	1.17	1.52

Source: IHS Markit

Angola

Strengths and weaknesses	
Strengths	**Weaknesses**
Oil revenue drives public and private investment, opening up opportunities across economic sectors, especially in a high oil-price environment.	During low oil-price environments, public investments dry up, increasing the risk of non-payment amid austerity. Corruption is a significant problem at all levels of government.
Proposed reforms to improve transparency in the banking sector will attract investors into the sector. Renewed efforts to diversify the economy away from oil dependence are likely to build resilience in the long term.	The judicial system remains weak, underdeveloped, and prone to executive interference.
Continued privatization and market liberalization will help to diversify the economy and open up new sectors such as power and agriculture to foreign investment.	Operating costs are extremely high, due to import dependency, low supply, entrenched monopolies, and poor infrastructure.
Expropriation risks are low.	High vulnerability of the economy to oil-price shocks.

Source: IHS Markit © 2020 IHS Markit

Politics and corruption: The release of Swiss-Angolan national Jean-Claude Bastos de Morais and former president José Eduardo dos Santos's son José Filomeno from police custody in March 2019, following charges of fraud related to the country's sovereign wealth fund, suggested that President João Lourenço was tempering his anti-corruption drive in order to consolidate his position within the ruling party, which has weakened given his failure to improve economic conditions since he came to power.

Slow economic growth: Angola has faced severe fiscal and external pressures since 2014, given the heavy reliance of its economy on energy. As a result, key policy priorities under Lourenço include economic diversification in agriculture and related infrastructure and attracting increased volumes of FDI. The imminent maturation of a number of oil fields and investor reticence over new projects are likely to compound fiscal constraints beyond the 12-month outlook. GDP growth was 0.4% in 2019.

Privatization of business advancing: Given the urgent need to diversify the economy, Lourenço is working to accelerate the privatization of state-owned enterprises not deemed to be of strategic importance to boost FDI and spur economic growth. High on the list is national airline TAAG, which was removed from the European Union's airline blacklist in April 2019. Although the government wants to privatize almost 200 companies over the next three years, it is likely to continue to struggle to attract international partners due to fears regarding profit repatriation.

Protests are likely: Protests in Luanda are likely to increase in the first quarter of 2020 as a number of austerity measures that accompanied the USD3.8-billion Extended Credit Facility granted by the IMF in December 2018 continue to take their toll on citizens. These measures include the phasing out of subsidies in electricity and fuel as well as the introduction of a consumption tax and VAT in October 2019. Such protests are likely to be met by a heavy-handed response from security forces.

Power sector is weak: The business environment will continue to be marred by weak infrastructure and high associated costs. A USD18-billion plan in 2015 to overhaul the power grid has not been fully implemented and this remains unlikely in the one-year outlook. The power sector is thus likely to remain weak, with occasional outages keeping operating costs very high.

Democratic Republic of Congo

Strengths and weaknesses

Strengths	Weaknesses
A broadly pro-investment government.	Ongoing insurgencies in the east pose militant attack threats.
Vast mineral resources, including copper, cobalt, coltan, gold, and diamonds.	An uneasy political arrangement, with different alliances controlling the presidency and legislature.
Improved relations with neighboring countries lower inter-state war risks.	Policy uncertainty and arbitrary contract revisions are likely.
Growing population and domestic market.	Poor transport and power infrastructure.

Source: IHS Markit © 2020 IHS Markit

Politics: President Félix Tshisekedi, formerly in opposition and inaugurated in January 2019, is likely seeking to consolidate power at the expense of former president Joseph Kabila (2001-19), who remains highly politically influential. Kabila's Common Front for Congo (Front Commun pour le Congo: FCC) alliance dominates the National Assembly and Senate, and most provincial legislatures and governorships. The FCC is officially governing in coalition with Tshisekedi's Heading for Change (Cap pour le Changement: CACH) alliance. Presidential Chief of Staff Vital Kamerhe is a key influencer on Tshisekedi, and any breakdown in their relationship would reduce the president's power.

Policy changes are unlikely: The cabinet of Prime Minister Sylvestre Ilunga (himself FCC, and acting primarily as a conduit for Kabila's influence) is divided between the FCC and CACH, and many ministers have deputies from the other political alliance. This will make incoherent policymaking and governance likely as the objectives of ministers and deputies diverge. The FCC holds the Mining Ministry, and this mitigates revision and review risks to pre-2019 mining contracts, but these risks are higher for the hydrocarbons and telecommunications sectors, whose relevant ministries CACH now holds. Tshisekedi's aspirational policies include regenerating the hydrocarbons and diamond-mining sectors, normalizing relations with the IMF, and completing the Inga III hydropower project.

Low risk of militia violence: Tshisekedi's victory, rather than that of Kabila's announced successor candidate, comparatively decreases the risk of militia violence in the Kasai region, which is a key support base for Tshisekedi and from which he ancestrally originates.

China investment has strong impact on economy: IHS Markit forecasts real GDP growth of 5.4% for 2019, with non-extractive sector growth expected to accelerate. With China being the main importer of Congolese minerals, any shock affecting China's economy would hurt the DRC.

Inflation to moderate: Headline inflation is expected to remain above the government's target of 6.5%, coming in at 8.6% in 2019. The uncontrolled budget deficit remains a concern for future inflation escalations if they remain unresolved.

Ethiopia

Strengths and weaknesses

Strengths	Weaknesses
Legal framework for foreign participation in the aviation, energy, logistics, and telecommunication sectors likely to be approved before 2020, providing access to large untapped markets.	Persistent, structural foreign exchange shortages affect all sectors, with supply preference being based on politically affiliated networks.
Improvement in relations with neighboring Eritrea will unlock new cross-border infrastructure development and trade opportunities.	The government's new 'Home Grown Economic Reform Program' lacks concrete actions that would ameliorate structural imbalances in the economy during 2020.
Specialized commercial courts are impartial and the Prime Minister's Office has established a Doing Business Initiative to improve foreign arbitration and the overall business environment.	Completion of flagship infrastructure projects is significantly delayed and large outlays have contributed to liquidity shortages affecting domestic banks, resulting in payment delays, especially in non-strategic export sectors.
The government is generally responsive to the security needs of foreign businesses operating in areas of civil unrest.	Labor strikes and anti-government protests in the Amhara and Oromia regions disrupt commercial operations and land cargo.

Source: IHS Markit

Political competition is intensifying: Prime Minister Abiy Ahmed's ruling Ethiopian People's Revolutionary Democratic Front (EPRDF) coalition agreed in November 2019 to merge into a single party, the Prosperity Party (PP), before the May 2020 legislative elections. Previously dominant coalition member the Tigrayan People's Liberation Front is unlikely to join the PP and ethno-nationalist factions of Ahmed's Oromo Democratic Party (ODP) and the Amhara Democratic Party (ADP) would defect to support regional opposition parties. However, the PP's core will very likely remain an alliance between the ODP and ADP, together controlling 58% of parliamentary seats.

Privatization and investment set to increase: The government is transitioning from debt- to equity-based foreign investment to support economic growth with 7.5% GDP in 2019. Growth is supported by privatizing state-owned entities in aviation, electricity, and telecommunications. A positive indication was the International Monetary Fund in December 2019 approving a USD2.9 billion financing package, likely boosting investor confidence. However, privatization will probably advance slowly because the debt profile of state-owned assets is not fully represented on the Treasury's balance sheet.

Import and export volume imbalance: Foreign currency scarcity persists because of an imbalance between high import volumes and lower exports. Exports reached USD678.5 million in June 2019, a decline of 7% on the previous quarter, compared with imports of USD3.6 billion during the same month. Smaller businesses face foreign currency delays exceeding 90 days, and delayed letter-of-credit payments affect importers. The fiscal imbalance led to Ethiopia's sovereign credit rating outlook being revised to Negative by two rating agencies in September-October 2019.

Civil war is unlikely: While civil war remains unlikely, the 22 June assassinations of high-ranking Amhara regional and federal officials (orchestrated by the region's then-head of security forces) indicate increasing politicization and declining cohesion of the military.

Looting and vandalism against foreign owned cargo and property is likely: Localized mob violence and militia small-arms violence between rival political, ethnic, and security forces groups is likely around adjustments to administrative boundaries, referendums on creating regional states, and during the legislative elections. Rioting poses looting and damage risks to foreign-owned commercial cargo vehicles, coffee farms, and washing stations.

Low inter-state war risk: Progress toward Eritrea and Ethiopia normalizing relations decreases the risk of inter-state war.

Kenya

Strengths and weaknesses

Strengths	Weaknesses
Agriculture, manufacturing, and service sectors make up a diversified base of economic activity.	Splits within the ruling Jubilee party during 2019 are likely to disrupt the implementation of fiscal policy.
Financial sector is more developed than those of regional peers.	Infrastructure development costs and timelines are worsened by litigation and compensation relating to land acquisition.
Relatively advanced corporate governance and regulatory frameworks, and strong support for foreign investment.	Private sector credit growth is constrained by a cap on interest rates implemented in 2016, which MPs will likely vote to retain despite High Court ruling against the law.
A well-skilled workforce bolsters innovative information and communication technology.	Mining and telecommunications operations in northeastern Mandera county face risk of terrorism.

Source: IHS Markit

Leadership contest for 2022 presidential elections: Although the ruling Jubilee party controls 49% of parliamentary seats, it faces a leadership contest in the lead-up to the 2022 presidential election, which will probably split the party before mid-2021. President Uhuru Kenyatta is serving his final term and has allied with the main opposition Orange Democratic Movement (ODM). Constitutional change that would devolve power from the presidency is likely to be legislated in 2020; for this reason, Deputy President William Ruto, a 2022 presidential aspirant, is likely to exit Jubilee during 2020 and form an alliance with ruling-party affiliates loyal to him and smaller opposition parties.

Tax and deficit impacts from leadership change: During 2019-20, the president's rivals will probably vote against policies aligned with key government aims, including reducing the overall budget deficit to its target of 6.2% of GDP in fiscal year (FY) 2019/20, from 7.6% of GDP in FY 2018/19.

Infrastructure projects may be impacted by revenue shortfalls: The 2019/20 budget prioritizes Phase 2A of the Standard Gauge Railway project. Conversely, the Last Mile Connectivity Project and Konza Technopolis were deprioritized. Revenue shortfalls are also likely to disrupt the advancement of development projects and social spending under the president's policy agenda. Even if the Treasury's request to increase development spending by more than USD800 million were granted by parliament, we assess that funding for new projects would be very small, and that this money would service debt for ongoing or completed projects.

Risks from militant group attacks are high: Islamist militant group Harakat al-Shabaab al-Mujahideen (Al-Shabaab) has the intent and occasional capability to target assets and personnel in Kenya's major cities associated with foreign political and security activities in Somalia. Hotels and shopping malls frequented by Westerners also fall within Al-Shabaab's target set. Improvised explosive device and small-arms attacks will probably occur less than once a year in Nairobi. Al-Shabaab conducts much more frequent small-arms ambushes, kidnappings, and roadside-IED attacks in northeastern counties such as Mandera, Garissa, and Wajir.

Kenya top-10 sectors ranked by value added	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Agriculture, forestry, and fishing	25.2	2.1	33.1
2. Real estate activities	5.9	4.7	7.7
3. Construction	4.8	6.5	6.2
4. Public admin and defense, other services	4.3	5.8	5.6
5. Financial service activities, except insurance and pension funding	3.9	5.2	5.0
6. Retail trade, except of motor vehicles and motorcycles	3.3	5.3	4.3
7. Education	3.3	7.2	4.3
8. Wholesale trade, except of motor vehicles and motorcycles	2.7	6.1	3.5
9. Water transport	2.3	2.7	3.0
10. Land transport	2.3	5.7	3.0
Top-10 total	**57.9**		**75.9**

Source: IHS Markit

Nigeria

Strengths and weaknesses	
Strengths	**Weaknesses**
Increased levels of capital spending through external borrowing are creating investment opportunities, particularly in transport infrastructure.	Terrorism, insurgencies, kidnapping, and violent criminality will continue to remain major deterrents to business operations in many parts of the country.
The government has belatedly allowed the naira to be partly market determined, and forex pressures are being further eased by a recovery in oil revenue.	There is little prospect in the next decade of Nigeria being able to transform its ailing power sector to meet rapidly rising demand.
New railways are being constructed to bring down freight costs.	Weak government finances and fiscal capacity raise the risk of increases in VAT, ad hoc taxes, and claims for arrears, especially against oil and telecoms companies.
Nigeria has vast mining potential, and investors are likely to be granted considerable incentives to develop the sector.	Corruption remains an endemic and deep-rooted problem at all levels of government and a patronage-dominated society.

Source: IHS Markit

Closed borders with neighboring countries: Nigerian authorities have been suggesting that land borders with neighboring countries will remain closed some time beyond the 31 January 2020 deadline suggested on 3 November 2019. Nigeria is determined to force its neighbors to take measures to curtail rampant smuggling, but an extension of the closure is likely to damage bilateral relations and foster loss of faith in Nigeria's ability to create the conditions to impose a continental free trade agreement.

VAT rates set to increase: One of the world's lowest VAT rates will rise from 5% to 7.5% in March 2020 as part of the Finance Bill signed by President Muhammadu Buhari in December 2019 which incorporates the 2020 budget. However, intense pressure on oil companies to pay disputed arrears and for ad hoc taxes on other sectors will remain, given ongoing revenue shortfalls and the fiscal authorities' inability to meet budgeted targets.

Risk from attacks at sea: Two major kidnapping incidents in the Gulf of Guinea suggest the presence of at least one well-resourced group using a mothership based far out to sea. In the first boarding of a supertanker on 3 December 2019, 77 miles from Bonny Island in the Niger Delta, 19 crew were seized. Another 20 were taken on 15 December off Lomé in Togo, likely increasing pressure on Nigerian authorities, especially from oil companies, to allow foreign onboard security teams.

Economy recovering slowly: Nigeria's economy is recovering gradually but oil export receipts remain vulnerable to volatile global crude prices, while limited hard-currency access, double-digit inflation, and capital flow reversals weigh on non-oil growth. A lengthy post-election hiatus has delayed economic reforms needed to unlock growth potential.

Risk from Islamic State attacks is increased: An uneasy militant truce is likely to prevail in the oil-producing Niger Delta in the 12-month outlook. There is a rising risk of the Islamic State-affiliated faction of Boko Haram resuming IED attacks outside the northeast: a series of successful attacks on military targets underline its growing capability and weapons stockpiling.

Nigeria top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Agriculture, forestry, and fishing	86.3	1.5	21.0
2. Retail trade, except of motor vehicles and motorcycles	38.2	0.9	9.3
3. Wholesale trade, except of motor vehicles and motorcycles	36.5	3.8	8.9
4. Extraction of crude petroleum and natural gas	36.2	1.6	8.8
5. Telecommunications	35.7	9.3	8.7
6. Real estate activities	29.2	-1.1	7.1
7. Public admin and defense, other services	25.9	-1.1	6.3
8. Construction	15.8	1.9	3.8
9. Education	9.2	0.5	2.2
10. Financial service activities, except insurance and pension funding	9.1	-3.2	2.2
Top-10 total	**322.1**		**78.5**

Source: IHS Markit

South Africa

Strengths and weaknesses

Strengths	Weaknesses
Established and resilient financial systems.	Negative perceptions about a rigid labor regime and recurring violent strike action.
Good legal protection, with an independent and impartial judiciary.	Concerns over future electricity capacity constraints and rolling power blackouts.
Investigative media which have exposed a multitude of corruption scandals.	Reports of state capture indicate the embedded presence of corrupt networks linked to senior politicians, which will resist official investigations.
The road, rail, and air infrastructure is of the best quality in Sub-Saharan Africa.	There is a continuing high level of violent crime.

Source: IHS Markit

State owned enterprises need private investment to pay for debt: The government is likely to seek private partners for some state-owned enterprises which are in debt distress. National carrier South African Airways was placed in business rescue in December 2019 and is likely to be sold once a restructuring process is complete. The announcement of a new Eskom CEO on 18 November 2019 is likely to accelerate the unbundling of the utility into three, forcing greater competition among power generators. Eskom's transmission unit is to be unbundled by the end of March 2020.

State land to become available to poor communities: The debate on land expropriation without compensation is likely to return to the fore as parliament finalizes the revised wording of the property clause of the constitution in December 2019. This is likely to slow President Cyril Ramaphosa's efforts to assert his pro-growth policy agenda on the ruling party and government, particularly as the ruling party prepares for a National General Council in July 2020 where government implementation of party resolutions will be assessed. The government is likely to forge ahead with plans to make state-owned land available for occupation by poor communities, particularly on the outskirts of major urban centers in Gauteng. This will assist in staving off illegal occupation of vacant land around the country.

Sovereign rating downgrade is possible: South Africa's GDP growth for 2019 was 0.2% for 2019. The budget deficit is expected to average 4.3% of GDP in 2019-21, with public sector debt increasing to nearly 60% of GDP. The country also faces the risk of a sovereign rating downgrade to sub-investment grade by Moody's Investors Service. A Moody's decision is likely to be deferred until after the February 2020 national budget speech.

Mining company ownership: The new mining charter was released in September 2018. It requires a minimum 30% ownership of mining companies for historically disadvantaged South Africans, as well as a minimum 70% of total mining goods procurement spending on South African manufactured products.

South Africa top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Public admin and defense, other services	59.5	1.1	17.9
2. Mining of metals and stone	24.1	-3.2	7.2
3. Wholesale and retail trade and repair of motor vehicles and motorcycles	21.1	3.6	6.4
4. Real estate activities	19.0	1.2	5.7
5. Land transport	18.6	0.9	5.6
6. Wholesale trade, except of motor vehicles and motorcycles	17.3	0.9	5.2
7. Financial service activities, except insurance and pension funding	16.6	1.6	5.0
8. Construction	12.7	-0.9	3.8
9. Manufacture of food products	8.6	1.3	2.6
10. Insurance, reinsurance, and pension funding, except compulsory social security	8.3	1.2	2.5
Top-10 total	**205.7**		**61.8**

Source: IHS Markit

Sudan

Strengths and weaknesses

Strengths	Weaknesses
US sanctions lifted in October 2017 permit diversified foreign financing and investment.	Direct tenders expose investors to corruption expectations.
Government is prioritizing private investment in large agricultural projects.	Targeted sanctions against individuals and entities involved in gold mining present compliance and reputational risks that are difficult to manage.
Probable removal from US state sponsors of terrorism list likely to simplify compliance procedures for Western banks.	Limited recourse to international arbitration; awards unlikely to be enforced by national courts.
Labor unrest is infrequent in the private sector.	Commercial cargo in North and East Darfur targeted by militia and organized criminal groups.

Source: IHS Markit

Joint military-civilian council: Newly appointed Sudanese Prime Minister Abdalla Hamdok announced the composition of his new interim government on 5 September – the first since Omar al-Bashir was ousted as president in April 2019. This follows a power-sharing deal between the Transitional Military Council (TMC) and the opposition Forces of Freedom and Change (FFC) coalition after long-running protests demanding a civilian-led government.

Protests risk reduced after new government formation: The formation of the government reduces the likelihood of nationwide anti-government sit-in protests and strikes disrupting public services, utilities, and ground cargo movements and transport services. Key grievances are likely to remain, however, including over corruption and bureaucratic inefficiency.

Reduced possibility of attacks from Sudan: The FFC has accepted postponement of the formation of a new parliament until a peace deal is reached with armed groups, which is likely by early 2020. This reduces the likelihood of attacks across Sudan, especially targeting military personnel and bases, and government property.

Gulf and EU support is economically important: The appointment of a new government increases Sudan's prospects of economic recovery, primarily by permitting eventual access to concessional financing and debt relief, in the likely event that the US removes Sudan from the State Sponsors of Terrorism list. In the meantime, Sudan will likely continue relying on aid from Gulf allies and increasingly from the European Union, although this is substantially lower.

Economic growth is slow, and inflation is high: Sudan's economy is expected to contract another 2.5% in 2019, after revised estimates show that real GDP declined 2.3% in 2018, owing to the domestic political tumult and instability in neighboring South Sudan, the country from which Sudan's vital oil exports emanate. Official consumer price inflation – which is likely to underestimate actual inflation – is expected to average about 50% in 2019, following 63% in 2018. The official exchange rate was devalued in October 2018 to SDG47:USD1 from SDG18; the black-market exchange rate is significantly higher, at near SDG71 as of October 2019, and the finance ministry reportedly plans to unify the two rates in June 2020.

Region 7 – Western Europe

Western Europe	Economy	Politics	Infrastructure	Competence	Overall grade
Austria	2.40	2.35	2.93	3.09	2.68
Belgium	2.08	2.73	3.43	3.42	2.88
Denmark	1.88	2.73	2.75	3.53	2.64
Finland	2.45	2.58	3.40	3.33	2.94
France	3.10	2.55	3.50	3.02	3.09
Germany	3.45	2.50	3.58	3.51	3.31
Ireland	2.30	2.80	2.50	2.55	2.51
Italy	2.63	2.18	2.80	2.50	2.56
Netherlands	3.08	2.50	3.45	3.34	3.12
Norway	2.05	2.28	2.80	3.08	2.53
Portugal	2.63	1.95	2.25	2.19	2.29
Spain	2.98	2.10	3.08	2.42	2.72
Sweden	2.78	2.50	3.18	3.42	2.97
Switzerland	2.55	2.80	2.85	3.33	2.85
United Kingdom	3.43	2.80	3.25	3.83	3.33

Source: IHS Markit © 2020 IHS Markit

Austria

Strengths and weaknesses

Strengths	Weaknesses
Favorable operational environment for domestic and international businesses.	At times burdensome bureaucracy, difficulties to set up and register businesses.
Geographic location at the center of Europe and good infrastructure offer easy access to other countries.	Insider culture creates potential corruption risks for state procurement and public contracts.
Generally strong and independent institutions.	There is little flexibility for agreement outside corporatist structures of negotiation.
Tradition of cooperation between social partners offers solid framework for industrial relations.	

Source: IHS Markit © 2020 IHS Markit

Center-right wins election: The result of Austria's September 2019 early general election was a major victory for the center-right Austrian People's Party (Österreichische Volkspartei: ÖVP) led by Sebastian Kurz, whose coalition government with the right-wing Freedom Party of Austria (Freiheitliche Partei Österreichs: FPÖ) collapsed in May amid the 'Ibizagate' corruption case.

Government formation in January: Government formation is likely to conclude in January 2020 resulting in an ÖVP alliance with the Greens. There have been considerable hurdles for this configuration, requiring compromises by both parties, but key inter-party differences seem bridgeable.

Strongest European economy: The Austrian economy maintained stronger growth momentum than most of its European peers (including key trading partner Germany) during 2018, but the annualized pace halved from almost 3% in 2017 to approximately 1.5% in late 2018. External factors such as rising global trade protectionism and Brexit-related concerns played a critical role in this, but weakening government consumption and fixed investment also contributed after mid-2018.

Government can provide stimulus: By late 2018, the relatively restrictive fiscal policy stance and the tax revenue boost from strong economic growth during 2016-18 had broadly erased the public sector deficit for the first time in more than 40 years. This gives the government leeway to provide fiscal stimulus if economic demand wanes further, and this is more likely if Austria faces an unexpected recession.

Terrorist attacks possible in larger cities: Austria faces a moderate risk of terrorist attacks primarily affecting major urban centers, particularly Vienna. The most likely form of attack is one of low capability, for instance using a vehicle or rudimentary weapons such as knives, carried out by a lone actor or small cells inspired but not necessarily directed by militant non-state groups such as the Islamic State.

Austria top-10 sectors ranked by value added	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Public admin and defense, other services	66.3	1.9	19.0
2. Financial service activities, except insurance and pension funding	39.9	1.1	11.5
3. Wholesale trade, except of motor vehicles and motorcycles	33.1	-2.2	9.5
4. Retail trade, except of motor vehicles and motorcycles	32.3	-1.4	9.3
5. Insurance, reinsurance, and pension funding, except compulsory social security	20.7	1.3	5.9
6. Human health and social work activities	18.1	2.7	5.2
7. Construction	17.6	-3.1	5.1
8. Real estate activities	17.2	-2.0	4.9
9. Education	13.3	0.9	3.8
10. Land transport	11.8	-0.4	3.4
Top-10 total	**270.3**		**77.6**

Source: IHS Markit

Belgium

Strengths and weaknesses	
Strengths	**Weaknesses**
Central location at the heart of Europe and the EU, good infrastructure, and favorable conditions for shipping, rail, and road cargo.	Burdensome bureaucracy.
Well-trained and educated multilingual workforce.	High degree of unionization, need for collective bargaining, regionalist resentment sometimes hinders cooperation.
Relatively effective institutions, stable and transparent legal and operational environment.	Political stalemate from regionalist conflict blocking reforms, government formation.
Good relations with its neighbors, EU integration.	Inward-looking, sometimes too focused on separatist demands.

Source: IHS Markit

Complex politics: Belgium's May 2019 federal, regional, and European elections left the country with a highly complex political landscape at all levels of governance. At federal level, the right-wing New Flemish Alliance came first with 25 seats, followed by the center-left Socialist Party from the southern region of francophone Wallonia, with a total of 20 seats in the 150-seat parliamentary assembly. The far-right separatist Flemish Interest came third with 18 seats.

Challenge to consolidate reginal electoral differences: Government formation is likely to be prolonged by protracted coalition talks made particularly difficult due to the rule that any federal administrative alliance must always include at least one francophone and one Flemish party. In this context, it will be highly challenging to consolidate the regional electoral differences that led to a shift further to the political right in Flanders and increased support for centrist and left-wing parties in Wallonia, as well as the capital region of Brussels.

High terrorist attack possibility: Belgium faces a heightened risk of both low-capability and more sophisticated jihadist attacks carried out by lone actors or small cells, inspired but not necessarily directed by non-state armed groups such as the Islamic State.

Business climate is stable: In the absence of a clear viable majority right or left of center, a pragmatic centrist compromise alliance is most likely to emerge. Simultaneously, despite a clearly heightened probability of political deadlock, Belgium's overall business environment is unlikely to substantially deteriorate in the 12-month outlook.

Softer economic activity: Currently, consumer price inflation is projected at 1.2% in 2019 and 0.9% in 2020. The return of wage indexation should keep the inflation rate in Belgium slightly higher than the eurozone average. Also, growth stimulating measures, namely the reduced tax burden on the employed and the return of wage indexation, should support private consumption growth in 2019-20. However, softer economic activity both in Belgium and the neighboring economies and lower short-term global crude oil prices will limit near-term domestic prices.

Belgium top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Public admin and defense, other services	44.8	0.6	9.4
2. Real estate activities	38.3	1.7	8.0
3. Legal, accounting, consultancy	36.7	3.0	7.7
4. Human health and social work activities	36.1	0.6	7.6
5. Education	34.1	0.6	7.2
6. Wholesale trade, except of motor vehicles and motorcycles	28.9	0.6	6.1
7. Construction	24.1	1.6	5.1
8. Retail trade, except of motor vehicles and motorcycles	20.7	0.1	4.3
9. Financial service activities, except insurance and pension funding	18.8	1.2	4.0
10. Security, buildings, employment	17.8	3.2	3.7
Top-10 total	**300.4**		**63.1**

Source: IHS Markit

Denmark

Strengths and weaknesses

Strengths	Weaknesses
A highly skilled labor force.	High levels of direct taxation.
Flexible employment protection legislation, or so called 'flexicurity'.	High tax wedge.
High levels of transparency in both the private and public sectors.	High staff turnover rates.
Excellent infrastructure and logistic facilities.	Frequent tax changes.

Source: IHS Markit

Strong exports had positive impact on economy in 2019: Denmark's GDP growth in 2018 was revised up from 1.2% to 1.4%, driven by a larger positive contribution from net exports in the second half of the year. GDP growth is 2019 increased slightly to 2.0%. Exports of pharmaceuticals and renewables-related machinery have been the main growth driver in 2019, but the positive momentum will be hard to maintain. Domestic demand is expected to pick up in 2020, underpinned by an expansive fiscal policy.

Inflation is low: Inflation will remain low, expected at 0.8% in 2019 and labor market tight, resulting in solid wage growth. This is good news for Danish households, boosting their real incomes.

Exchange rate related closely to euro/dollar rate: Given the krone's peg to the euro, the monetary policy stance reflects the European Central Bank's actions, while the exchange rate forecast mirrors patterns in the euro/US dollar exchange rate.

New government will increase health spending: Mette Frederiksen and her Social Democratic Party (Socialdemokraterne) won the June 2019 general election and later secured the backing of three other leftist parties, ensuring a parliamentary majority. The alliance was made possible by Socialdemokraterne backing down from its electoral pledge to adopt anti-immigration policies. The government has pledged to reverse the austerity cuts of the previous Venstre-led government, pledging increased spending on health and elderly care and cutting greenhouse gas emissions by 70% before 2030. Denmark's economic growth and low public debt gives the government sufficient fiscal space to implement these measures.

Terrorist attack possibility is high: Danish participation in the US-led campaign against the Islamic State and the presence of Danish troops in Afghanistan make the country a symbolical target for attacks by jihadist militants. Small-arms attacks by self-radicalized individuals or small groups with criminal connections are most likely. In December 2019, the police foiled a planned attack during a nationwide anti-terrorism raid.

Denmark top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Human health and social work activities	32.7	0.1	10.8
2. Real estate activities	29.8	1.9	9.9
3. Wholesale trade, except of motor vehicles and motorcycles	26.4	2.0	8.8
4. Public admin and defense, other services	21.9	-0.1	7.3
5. Education	19.2	-0.1	6.4
6. Construction	14.4	2.5	4.8
7. Financial service activities, except insurance and pension funding	12.7	-0.5	4.2
8. Manufacture of basic pharmaceutical products and pharmaceutical preparations	12.0	16.7	4.0
9. Retail trade, except of motor vehicles and motorcycles	10.3	0.9	3.4
10. Legal, accounting, consultancy	8.5	2.7	2.8
Top-10 total	**188.0**		**62.4**

Source: IHS Markit

Finland

Strengths and weaknesses

Strengths	Weaknesses
Exceptionally well-educated workforce and well-developed communication infrastructure.	Frequent industrial and labor disputes, relatively high labor costs.
Strong levels of R&D investment.	Weak demographics will have an impact on long-term economic productivity.
Consensus-driven political system and a robust welfare state; violent crime risk in the country is low.	Divisions over structural reforms have challenged the traditional consensus seeking of coalition governments.
One of the cheapest rates of electricity for industrial users in the EU.	High reliance on exports, with Russia being a key export market.

Source: IHS Markit

Politics: There is an elevated risk of rearrangement of the left-leaning coalition led by the center-left Social Democratic Party, stemming from probable disagreements among partners over environmental and labor policies. The five-party coalition has a parliamentary majority of 117 out of 200 seats. The government is likely to progress with environmentally oriented policies in 2020, but a comprehensive overhaul of the taxation and regulatory regime is unlikely. Steps toward implementing the long-planned healthcare and administrative reforms are likely.

Budget deficit is modest; Labor shortages are issue: The budget deficit, currently below 1% of GDP, is expected to remain modest, and the government debt/GDP ratio has eased below 60% of GDP. Structural challenges, such as unfavorable demographics, present fiscal challenges in the next three to five years. Although unemployment has been easing (from 8.6% in 2017 to 7.5% in 2018), further improvement is constrained by labor shortages and difficulties in dismissing employees.

Slowing construction and modest wage growth: Economic growth was 1.73% in 2019. The outlook for exports is deteriorating together with the weakening growth outlook for external demand in the EU and Russia. The construction investment boom is slowing, while modest wage growth will dampen household demand. Industrial productivity remains structurally uncompetitive.

Protests likely: The risk of industrial action and peaceful protests relating to disputes between trade unions and employers is high. Trade unions can initiate large strikes, causing disruption for days. Centralized wage negotiations between employers' organizations, trade unions, and the government will remain a key feature of the Finnish consensus-seeking labor-market policy model.

Russian border incursions are likely: Finland is unlikely to join NATO in the two-year outlook. Any moves toward NATO membership would be subject to a referendum and conducted jointly with Sweden. Closer military cooperation with Sweden and NATO probably will continue, increasing the risk of Finnish involvement in the unlikely event of a direct Russia-NATO confrontation. Airspace and naval border incursions by Russian military aircraft are likely to persist.

Finland top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Real estate activities	29.1	1.6	12.3
2. Human health and social work activities	22.6	0.9	9.6
3. Public admin and defense, other services	18.7	1.6	7.9
4. Construction	16.0	2.3	6.8
5. Education	12.7	0.8	5.4
6. Wholesale trade, except of motor vehicles and motorcycles	9.8	0.5	4.1
7. Retail trade, except of motor vehicles and motorcycles	8.4	0.9	3.6
8. IT and information services	8.2	1.8	3.5
9. Security, buildings, employment	7.3	3.0	3.1
10. Land transport	6.1	0.7	2.6
Top-10 total	**138.9**		**58.8**

Source: IHS Markit

France

Strengths and weaknesses

Strengths	Weaknesses
Stable and pro-business government.	Overly complex business laws.
Good infrastructure.	Relatively high tax burden.
Skilled workforce.	Powerful unions prone to taking action.
Government taking steps to restore competitiveness and lighten regulatory burden.	Relatively time-consuming legal system.

Source: IHS Markit

Protest against pension reform: Prime Minister Édouard Philippe has outlined the planned measures included in the contested overhaul of the pension system. Severely disruptive strikes and protests against the pension reform are likely to continue into 2020, particularly affecting the transport, energy, retail, and tourism sectors.

Protest risk is moderate: The "Yellow Vest" movement – a wide-ranging grassroots protest group that emerged in November 2018 – has been staging large weekly protests across France. Although the number of participants has been steadily decreasing, the risk of violence between demonstrators and the police, as well as property damage and vandalism to retail businesses and restaurants, will remain high in the six-month outlook.

Stable economy with low inflation: We expect GDP growth to decelerate modestly in 2020, as softer external demand takes its toll on activity. Nevertheless, we still project the French economy to perform relatively solidly when compared with other large eurozone economies, supported by positive labor market conditions and low inflation.

Fiscal shortfall: Following an expected widening in 2019 as a result of the measures introduced in late 2018 in response to the Yellow Vest protests, the deficit is expected to resume its downward trajectory, and stand below 3% of GDP, in 2020.

Terrorist risk is high: The risk of Islamist terrorist attacks in France is persistently high. Low-capability, lone-actor attacks involving vehicles, blades, and/or firearms are far more likely to succeed than sophisticated plots as they require a minimal amount of organization and little, if any, communication between different parties. Islamist militants will prioritize indiscriminate attacks against congregations of civilians, or targeted assaults on security personnel.

France top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Real estate activities	305.4	1.5	12.3
2. Public admin and defense, other services	238.0	0.9	9.6
3. Human health and social work activities	236.3	1.1	9.5
4. Education	134.1	0.8	5.4
5. Construction	127.2	2.0	5.1
6. Wholesale trade, except of motor vehicles and motorcycles	112.1	1.9	4.5
7. Retail trade, except of motor vehicles and motorcycles	105.9	2.1	4.3
8. Security, buildings, employment	100.6	2.4	4.1
9. Legal, accounting, consultancy	94.9	2.9	3.8
10. Accommodation and food service activities	75.7	1.2	3.1
Top-10 total	**1530.1**		**61.8**

Source: IHS Markit

Germany

Strengths and weaknesses

Strengths	Weaknesses
Strong German influence on EU regulation and policymaking.	Demands on businesses for stringent compliance awareness and regulation.
Comparative economic resilience in the face of eurozone challenges.	High energy and labor costs including non-wage labor costs.
Highly advanced energy, transport, and communications infrastructure.	Weak demographic figures and aging population.
Skilled and educated workforce, with an emphasis on R&D investment and innovation in industry.	High dependence on raw material imports, limited hydrocarbon resources.
High level of specialization in engineering and industrial manufacturing sectors.	

Source: IHS Markit © 2020 IHS Markit

Ruling coalition party popularity is declining: Recent leadership renewal in the ruling coalition parties, combined with a significant decline in electoral support, is a destabilizing factor for the government, making an early election more likely before May 2020. In such a scenario, the "grand coalition" between Chancellor Angela Merkel's CDU, its Bavarian ally the CSU, and the SPD would be highly unlikely to continue, increasing the probability of CDU/CSU collaboration with the currently successful Green Party.

Stable investment environment: The government's policy priorities are likely to be influenced by the three coalition partners' attempts to sharpen their profiles. Nevertheless, the government's current policy agenda continues to ensure a stable investment environment. Germany's budget surplus assists the government's plans to increase public spending.

Slowing economy and further decline is possible due to Brexit: The robust economic growth pace of about 2.0% achieved since mid-2013 ended abruptly in mid-2018 as restraining forces from slowing global demand, trade war fears resulting from mounting US protectionism, and concerns about Brexit were exacerbated by domestic one-off factors (including automotive sector production declines linked to a new emission test regime and drought-related supply chain problems for the chemical/pharmaceutical sector).

Increased terror attack risk: Germany faces a heightened risk of both low-capability and more sophisticated jihadist attacks carried out by lone actors or small cells inspired but not necessarily directed by non-state armed groups. Assaults with rudimentary weapons such as knives, vehicle-impact attacks, shootings, or a combination of these remain likely. Soft targets such as transport hubs and music and sport venues face the most risk.

Germany top-10 sectors ranked by value added	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Real estate activities	362.3	1.4	10.1
2. Public admin and defense, other services	314.1	1.2	8.8
3. Human health and social work activities	279.3	1.6	7.8
4. Wholesale trade, except of motor vehicles and motorcycles	171.9	2.4	4.8
5. Construction	167.3	3.6	4.7
6. Education	163.0	1.3	4.6
7. Retail trade, except of motor vehicles and motorcycles	127.5	3.0	3.6
8. Security, buildings, employment	123.8	2.7	3.5
9. Legal, accounting, consultancy	110.7	6.3	3.1
10. IT and information services	109.7	5.8	3.1
Top-10 total	**1930.0**		**53.9**

Source: IHS Markit

Ireland

Strengths and weaknesses

Strengths	Weaknesses
Low tax burden, business-friendly environment, flexible labor market, robust investor-protection systems.	Vulnerable to Brexit-related instability due to close economic ties with UK.
A stable legal and regulatory environment makes Ireland one of the most globalized and open economies in the world.	Ireland is heavily dependent on the export sector and is particularly vulnerable to instability in the eurozone.
Anglophone country with highly educated, young workforce allowing considerable investment by high-tech companies.	The small size of the domestic market acts as a disincentive for some investors, and Ireland has been less successful in attracting software development and R&D investment.
Ireland operates as a strategic gateway into European markets for US and other overseas multinational companies and is the fourth-largest recipient of US FDI.	Ireland's geographical location on the western periphery of Europe gives rise to regional differences in the business cost base outside the Dublin area.

Source: IHS Markit

Early election is possible due to exposure to Brexit: The largely centrist Fine Gael minority government led by Leo Varadkar is currently supported by the main opposition party, Fianna Fáil, which agreed to extend a confidence-and-supply deal until the next general election. Both parties have stated that elections are likely to be scheduled for the second or third quarter of 2020. Delay in voting is also possible. This is due to multiple factors which include Ireland's exposure to Brexit and the government's focus on playing a prominent role at the beginning of the EU's new institutional cycle.

Focus on solution to Brexit deadlock: The government will focus on its Brexit risk-mitigation plans and further negotiations with the UK bilaterally and through the EU. A primary goal will be finalizing a recent deal that avoids reinstatement of a hard border between Ireland and the UK region of Northern Ireland. That would contravene the Good Friday Agreement and would be likely to have significantly disruptive consequences for cross-border trade and supply chains.

Republican terrorist activity is likely: A change to the status quo on the border would also likely spark an upsurge in cross-border activity by dissident republican terrorist groups with legacy operational links in Ireland, the most probable targets being assets associated with the British state located in Northern Ireland.

Economy softens: Irish GDP growth decelerated in 2019 to 3.1% from an estimated 6.6% in 2018 as reduced external demand and concerns about the impact of Brexit soften activity.

Ireland top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Manufacture of basic pharmaceutical products and pharmaceutical preparations	47.7	3.3	13.6
2. Publishing activities	22.1	7.0	6.3
3. Real estate activities	20.0	1.2	5.7
4. Manufacture of food products	18.7	5.2	5.3
5. IT and information services	17.3	5.0	4.9
6. Human health and social work activities	17.3	2.4	4.9
7. Rental and leasing activities	16.1	4.6	4.6
8. Legal, accounting, consultancy	14.1	3.9	4.0
9. Financial service activities, except insurance and pension funding	13.6	1.9	3.9
10. Other manufacturing	12.7	1.4	3.6
Top-10 total	**199.6**		**57.0**

Source: IHS Markit © 2020 IHS Markit

Italy

Strengths and weaknesses

Strengths	Weaknesses
Eighth-largest economy globally; economy built on small, family-owned firms and precision-engineering industries.	Political instability; risk of policy reversals.
Reducing business and labor costs is industrial policy.	Slow growth, high debt, low productivity, sharp regional divergences, and a fragile banking sector.
Strategic trade location, dominating Mediterranean routes to Europe.	Inefficient public sector and legal system with a large backlog of court cases; large shadow economy.
Strong protection of intellectual property rights.	Corruption and organized crime are persistent problems in business.
Highly skilled and educated workforce.	High unemployment, falling living standards, and frequent strikes across all industrial sectors.

Source: IHS Markit © 2020 IHS Markit

Snap election averted: On 9 and 10 September 2019, the Chamber of Deputies and the Senate approved a new coalition government between the Five Star Movement (Movimento Cinque Stelle: M5S) and the Democratic Party (Partito Democratico: PD). The agreement averted a snap election, which was the objective of M5S's previous coalition partner, League (Lega), when it pulled the plug on the previous government.

Government crisis: Given the antagonistic history and policy differences between the PD and M5S, the coalition is unlikely to last the entire current parliamentary term. Policy disagreements on how to resolve the issue of the Ilva steel plant and the proposed reform of the European Stability Mechanism (ESM) are especially likely to trigger a government crisis.

Although Lega was sidelined through the coalition between the PD and M5S, it is well positioned to regroup and perform strongly in upcoming elections. M5S's alliance with the PD will allow Lega to cast itself as the only true "anti-establishment" party in Italy, attracting disaffected voters who previously voted M5S.

GDP growth is expected to slow: We expect real GDP to expand by 0.2% in 2019, according to our December 2019 forecast. This implies Italy sliding into a mild technical recession during the second half of 2019 and the first half of 2020. The economy stagnated in the first half of 2019.

Fiscal tightening: The economic risks are tilting modestly to the downside given the threats to the global economy, alongside Italy's significant fiscal and political challenges. Therefore, the economy is on course for more pain, reflecting nervous households, struggling exports, poorer investment trends, and the need for fiscal tightening.

Italy top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Real estate activities	252.3	0.9	13.6
2. Public admin and defense, other services	174.2	0.3	9.4
3. Human health and social work activities	112.9	0.1	6.1
4. Wholesale trade, except of motor vehicles and motorcycles	100.3	0.7	5.4
5. Retail trade, except of motor vehicles and motorcycles	96.9	0.8	5.2
6. Construction	83.3	2.4	4.5
7. Education	79.2	0.2	4.3
8. Accommodation and food service activities	74.3	-0.1	4.0
9. Legal, accounting, consultancy	63.9	-0.1	3.4
10. Financial service activities, except insurance and pension funding	60.4	-1.0	3.3
Top-10 total	**1097.7**		**59.2**

Source: IHS Markit

Netherlands

Strengths and weaknesses

Strengths	Weaknesses
The Netherlands benefits from a strategic geographic location at the core of the EU. Within a 300-mile radius, there are 170 million European consumers.	An aging population presents a long-term challenge for pension systems.
Advanced, high-quality transport infrastructure network. The port of Rotterdam operates as Europe's largest port and a gateway to the EU market, while Schiphol is the fourth-largest airport in Europe. A strong logistics industry includes freight networks and distribution centers.	High labor and real-estate costs, as well as strong competition in some industrial sectors from Germany.
Attractive tax schemes for foreign investors. Labor productivity per hour and the labor participation rate are high.	Relatively small size of the Dutch domestic consumer market. Export-oriented economy dependent on global demand.
	High mortgage and household debt dent confidence and economic activity.

Source: IHS Markit

Strong opposition pressure: Prime Minister Mark Rutte's center-right four-party government currently lacks a majority in both houses of parliament. This leaves it more exposed to strong opposition pressure and increases the probability of an early general election in 2020.

Business environment is still favorable: Despite currently heightened levels of political instability, it is unlikely that there will be a negative impact on the Netherlands' investment environment as the Dutch principle of "polderen" (consensus decision making) remains a stabilizing factor for businesses. Increased political polarization in the Netherlands remains less challenging than in other Western European countries.

German slowdown and Brexit may impact shipping through the Port of Rotterdam: The economy is facing a tougher external environment than in the previous two years. Specifically, the German economic slowdown will have important implications, taking a toll on the manufacturing sector that feeds into the German automotive sector and hurting shipping through the Port of Rotterdam. Brexit also endangers shipping traffic.

One of the strongest European economy growers: The Dutch economy is typically one of the strongest growers within the eurozone and IHS Markit believes that this is still the case, even given the 2019 deceleration of growth. However, as jobs are no longer being added, inflation has risen, and when moving firmly into the second half of this European business cycle, it is likely that the Netherlands will no longer be able to grow above capacity.

Low terrorist risk: The Netherlands faces a risk of low-capability and more sophisticated terrorist attacks launched by lone actors or small cells directly linked to non-state militant groups such as the Islamic State or inspired by their ideology. Soft targets, such as transport hubs, bars and restaurants, shopping centers, or public spaces near tourist attractions, are likely to be most at risk.

Netherlands top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Wholesale trade, except of motor vehicles and motorcycles	75.7	2.0	9.3
2. Human health and social work activities	73.3	1.4	9.0
3. Public admin and defense, other services	69.4	1.4	8.6
4. Real estate activities	49.4	2.1	6.1
5. Security, buildings, employment	44.9	3.7	5.5
6. Legal, accounting, consultancy	41.7	3.7	5.1
7. Education	40.6	1.3	5.0
8. Construction	39.6	5.1	4.9
9. Financial service activities, except insurance and pension funding	36.3	-0.8	4.5
10. Retail trade, except of motor vehicles and motorcycles	32.7	2.5	4.0
Top-10 total	**503.6**		**62.1**

Source: IHS Markit

Norway

Strengths and weaknesses

Strengths	Weaknesses
Stable, transparent, and predictable political and legal environment; consensus-driven policymaking ensures low risk of sudden policy reversals.	High corporate and personal tax rates compared with OECD peers outside Scandinavia.
High degree of openness to foreign investment, highly skilled and educated workforce.	High unit labor costs compared with OECD peers.
Negligible risk of expropriation of foreign assets.	Strong currency harming exports, including of oil.
Access to the EU's single market and free flow of labor through membership in the European Economic Area (EEA).	Protectionism in some sectors exempted from EU regulations, including fisheries and agriculture.

Source: IHS Markit

Business environment is good: The departure of the right-wing Progressive Party (KrF) from the ruling coalition in January 2020 deprives the government of its parliamentary majority. The three remaining coalition partners, headed by Prime Minister Erna Solberg, will now have to negotiate their policies on a case-by-case basis. KrF will likely support the government from opposition, which means that government stability in 2020 is unlikely to be compromised.

Tougher anti-immigration policy likely: While in coalition, KrF complained over too little influence on policy direction. Moving into opposition and having the government rely on its support will increase its scope. This is likely to be reflected primarily in right-wing policies to attract more support, including a tougher anti-immigration stance. The government's policymaking is likely to be delayed and protracted.

Economy growth is stable: The mainland economy will continue to evolve solidly during 2020 and 2021, helping to offset a continued drag from petroleum exports. The main engines of growth are likely to be solid private and public consumption growth and the last legs of a sharp rebound in offshore investment. Overall, the economy gain was an estimated 0.9% in 2019, from a 1.5% gain in 2018.

Norway top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Extraction of crude petroleum and natural gas	55.7	-3.1	14.3
2. Human health and social work activities	45.5	1.6	11.7
3. Public admin and defense, other services	33.4	1.5	8.6
4. Real estate activities	29.0	1.9	7.5
5. Construction	27.5	1.9	7.1
6. Education	21.6	1.5	5.6
7. Financial service activities, except insurance and pension funding	14.5	2.2	3.7
8. Wholesale trade, except of motor vehicles and motorcycles	13.6	1.2	3.5
9. Retail trade, except of motor vehicles and motorcycles	11.2	0.0	2.9
10. Agriculture, forestry, and fishing	8.3	1.1	2.1
Top-10 total	**260.4**		**67.0**

Source: IHS Markit

Portugal

Strengths and weaknesses

Strengths	Weaknesses
The center-left minority government combines budgetary restraint with policies to support internal demand and create employment.	The stability of the center-left minority government is contingent on support from far-left parties and cohabitation with the president.
The government remains keen to attract foreign direct investment (FDI), including for start-ups; subsidies and bureaucratic reform are likely to benefit small and medium-sized enterprises.	Occasional corruption and labor union resistance pose potential operational risks.
The country enjoys a stable security environment and has cordial relations with both its neighbors and former colonies.	Reliance on tourism growth to bolster short-term growth leaves the economy vulnerable to external shocks.
Portugal benefits from a lower intensity and frequency of industrial action and violent protests than other Western European countries.	Excessive bureaucratic procedures and a slow administrative process; judiciary remains very slow by EU standards.

Source: IHS Markit

Government alliance is stable: Incumbent Prime Minister Antonio Costa won a new mandate in the general election on 6 October, strengthening from 86 to 106 parliamentary seats, but still without an overall majority. It will likely thus continue to work with the Socialist Party (Partido Socialista: PS), left-wing Left Bloc (Bloco de Esquerda: BE), and Unitary Democratic Union (Coligação Democrática Unitária: CDU) to maintain government and policy stability in the next four years. This stability has reflected a benign external environment and sustained economic growth. We project a moderate deceleration in GDP growth from an expected 2.0% in 2019 to 1.6% in 2020, but this is unlikely to change fundamental relationships within the governing alliance.

Low risk of populist nationalism: After the October general election, with Costa's Socialist Party strengthened, the two lesser left-of-center parties will have less leverage to influence him. Nonetheless, major policy shifts are unlikely, given the relative success that the 2015-2019 government achieved through cooperation and broadly social democratic policies.

Populist nationalism upsurge is low: The fragmented political landscape and imminent election potentially allowed space for a new populist nationalist party to emerge. Although the new anti-immigration party Chega won its first ever parliamentary seat, it gained only 1.3% of the total overall vote, confirming that there are currently no strong indicators suggesting a significant upsurge in populist nationalism, nor a significant current of Euroskepticism shaping the political environment.

Risk to economic outlook: The main risk to the economic outlook stems from a deteriorating external environment, while banks' asset quality, profitability, and capital buffers remain under pressure from elevated impairment. We do not expect Portuguese sovereign bond yields to increase substantially despite elevated public debt levels, as monetary policy will remain supportive and inflation muted over the medium term. Nevertheless, borrowing costs will gradually trend upward in 2020.

Portugal top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Real estate activities	23.5	0.7	11.5
2. Public admin and defense, other services	19.5	0.9	9.5
3. Wholesale trade, except of motor vehicles and motorcycles	15.3	3.1	7.5
4. Retail trade, except of motor vehicles and motorcycles	12.7	4.8	6.2
5. Human health and social work activities	12.4	1.0	6.1
6. Accommodation and food service activities	12.2	3.5	5.9
7. Education	12.2	0.8	5.9
8. Construction	8.0	3.0	3.9
9. Financial service activities, except insurance and pension funding	7.0	1.1	3.4
10. Electricity, gas, steam, and air conditioning supply	6.4	-5.2	3.1
Top-10 total	**129.2**		**63.0**

Source: IHS Markit

Spain

Strengths and weaknesses

Strengths	Weaknesses
Simpler, more efficient, and more transparent judicial proceedings for foreign direct investment.	Ongoing contention over Catalan separatism undermines overall political cohesion and policymaking and introduces uncertainty over economic stability.
Spain offers more favorable tax conditions for businesses than some of its EU peers.	Corruption remains a serious issue and dents the image of the main opposition political party, some of whose former leaders are currently in jail or imputed in several anti-corruption court cases.
Expropriation and nationalization without adequate market compensation are unlikely.	Anti-austerity, anti-ride-hailing services and pro-Catalan independence protests will continue to disrupt public services, transport, and cargo.
Although economic performance will soften, we still forecast 1.6% growth in 2020.	Fragile minority government undermining overall government longevity and policy predictability.

Source: IHS Markit © 2020 IHS Markit

Politics: The center-left Spanish Socialist Workers' Party (Partido Socialista Obrero Español: PSOE) of Prime Minister Pedro Sánchez won 120 of 350 seats in the 10 November 2019 general election. It will seek to form an administration, probably with the support of a wide range of minor regional parties. However, the volatile nature of Spain's party system is likely to make the government formation process lengthy. The unresolved Catalan autonomy issue will be the major ongoing challenge for Spain's new government and is likely to become more so given the strengthening of the right-wing nationalist VOX party in parliament.

Parliament evenly balanced between left and right: The rise of VOX to become the third-largest party in parliament and the recovery of the more established Popular Party (Partido Popular: PP), which retained its place as the main opposition party, came mainly at the expense of the more liberal center-right Citizens (Ciudadanos). Consequently, parliament will remain quite evenly balanced between the left and right under the new government, making major policy changes difficult to legislate successfully.

Economic recovery to soften: IHS Markit expects Spain's economic recovery to soften during 2019-20, with real GDP growth forecast at 2.0% in 2019, down from 2.4% in 2018, according to the November forecast update. Given the government's attempts to reassure the European Union that it will continue to meet fiscal deficit targets, increased spending on Catalonia and other autonomous regions relies on ambitious objectives to increase tax revenues in the 12-month outlook, which would be hampered by any further softening of GDP growth.

Risks from protests in Catalonia and terrorist attacks: The ongoing Catalan independence conflict will keep protest and riot risks high, mostly in Catalonia. In addition, the emergence of VOX also indicates a new protest risk around its activities by opponents. Spain faces an ongoing elevated risk of Islamist terrorist attacks conducted by lone actors or small cells.

Spain top-10 sectors ranked by value added	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Real estate activities	129.2	1.3	9.9
2. Public admin and defense, other services	113.6	1.7	8.7
3. Accommodation and food service activities	89.7	3.5	6.9
4. Human health and social work activities	84.5	2.2	6.5
5. Wholesale trade, except of motor vehicles and motorcycles	75.3	4.0	5.7
6. Construction	75.3	4.8	5.7
7. Education	74.6	2.3	5.7
8. Retail trade, except of motor vehicles and motorcycles	65.9	3.0	5.0
9. Security, buildings, employment	37.6	6.1	2.9
10. Financial service activities, except insurance and pension funding	36.5	2.0	2.8
Top-10 total	**782.2**		**59.7**

Source: IHS Markit

Sweden

Strengths and weaknesses

Strengths	Weaknesses
Stable, transparent, and predictable political and legal environment; consensus-driven policymaking ensures low risk of sudden policy reversals.	High personal income tax rates compared with OECD peers outside Scandinavia.
High degree of openness to foreign investment; highly skilled and educated workforce.	High unit labor costs compared with OECD peers.
Relatively low corporate tax rates compared with regional peers; strong public finances and low interest rates.	Strongly regulated and inflexible labor market.

Source: IHS Markit

Economy growth is strong: According to IHS Markit's latest forecast update, growth is expected to stand at 2.0% (up from 1.6%) in 2019, compared with 2.4% both in 2018 and 2017. Given a notably stronger-than-anticipated real GDP gain in the final quarter of 2018, we raised our 2019 growth projection in the March update.

Consumer spending to drive growth: The main driver of growth in 2019-20 is likely to be consumer spending, with households still enjoying ultralow interest rates, and supportive employment and real wage gains.

Exports to be impacted by lower eurozone outlook: Nevertheless, the short-term narrative remains unchanged; namely external downside risks, primarily a less assured eurozone outlook, hurting Sweden's export-led economy.

Policy outlook is uncertain: Meanwhile, an uncertain domestic political climate has damaged consumer and business sentiment. The policy outlook is uncertain, given the center-left government's difficult task ahead of reconciling the policy needs of its base and the demands of its newfound centrist partners in parliament.

Russian military actions may push Sweden to join NATO: Russian military assertiveness in the Baltic region has the potential to push Sweden, a historically neutral nation, closer to the prospect of joining NATO. However, such a move is contingent on its neighbor, Finland, making similar strides toward NATO membership.

Sweden top-10 sectors ranked by value added	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Human health and social work activities	53.5	-0.2	10.8
2. Real estate activities	40.5	2.2	8.2
3. Public admin and defense, other services	31.9	0.9	6.5
4. Construction	29.2	1.2	5.9
5. Wholesale trade, except of motor vehicles and motorcycles	28.2	1.8	5.7
6. Education	27.3	3.4	5.5
7. IT and information services	19.9	4.0	4.0
8. Retail trade, except of motor vehicles and motorcycles	18.5	1.5	3.8
9. Security, buildings, employment	15.0	1.8	3.0
10. Legal, accounting, consultancy	14.3	2.0	2.9
Top-10 total	**278.2**		**56.4**

Source: IHS Markit

Switzerland

Strengths and weaknesses	
Strengths	**Weaknesses**
Attractive operational environment and infrastructure of a high standard.	Very high living costs.
Strong institutions; stable and consensual political system.	Disagreement between major political parties over future framework of Swiss-EU relations and immigration.
Comparatively low taxation for international businesses.	Switzerland under pressure from EU to align itself and eliminate an array of tax exemptions.

Source: IHS Markit

Corporate tax reforms and future relationship with EU: Switzerland's participatory democracy allows for many public interest groups to be represented in the political landscape through referenda. This increases the probability that the government will find it challenging at times to implement its policies, the most prominent of which are currently envisaged corporate tax reforms and newly defined future relations between Switzerland and the EU.

Stricter environmental regulations emphasis by new government: Following the strong performance of Switzerland's two green parties in the October 2019 federal elections, the new government is likely to put a strong emphasis on implementing stricter environmental regulations.

Formalized agreement with EU is challenging: Negotiations over replacing the current framework of more than 120 bilateral treaties between Switzerland and the EU with a more formalized agreement have been challenging, and parliamentary passage of recent proposals for reform remains difficult.

Economic growth should stabilize: Swiss economic growth should stabilize during 2020-21, having slowed to that pace during 2018-19 after peaking above 3% in early 2018. This slowdown owed to external factors such as (US-initiated) trade protectionism and Brexit concerns and the above-average impact these have had on Germany, Switzerland's most important trading partner. These concerns have been allayed only partially by early 2020, preventing a more vigorous near-term recovery.

Switzerland top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Public admin and defense, other services	87.8	-0.1	12.8
2. Wholesale trade, except of motor vehicles and motorcycles	61.4	0.1	9.0
3. Real estate activities	53.2	0.4	7.8
4. Human health and social work activities	53.1	2.0	7.8
5. Manufacture of basic pharmaceutical products and pharmaceutical preparations	36.4	11.1	5.3
6. Construction	35.0	0.8	5.1
7. Financial service activities, except insurance and pension funding	32.4	0.4	4.7
8. Insurance, reinsurance, and pension funding, except compulsory social security	27.1	1.0	4.0
9. Retail trade, except of motor vehicles and motorcycles	25.1	-0.1	3.7
10. Legal, accounting, consultancy	21.0	2.5	3.1
Top-10 total	**432.6**		**63.2**

Source: IHS Markit

United Kingdom

Strengths and weaknesses

Strengths	Weaknesses
Comparatively low corporate tax rates and flexible labor market, particularly in comparison with some other Western European countries.	Brexit very likely to result in loss of full access to the single market while destabilizing domestic political framework.
Strong legal system and contract enforcement.	Increasing inequality, particularly between Greater London and other regions.
	Regional disparity in skills and labor availability.

Source: IHS Markit

Brexit and negotiation with EU: The United Kingdom will cease to be a European Union member state on 31 January 2020 but will remain closely aligned to the bloc during a post-Brexit transition period scheduled to end on 31 December 2020. As the UK government has legally stipulated that it will not extend the transition period beyond that date, it will have only a very limited window of 11 months to negotiate an agreement with the EU to prevent a delayed disorderly Brexit.

Next stage of Brexit unclear: Details remain unclear regarding the government's plan for the next stage of Brexit, which will be mainly focused on renegotiating future UK-EU relations, including on trade. However, the large parliamentary majority secured by Prime Minister Boris Johnson at the December 2019 early general election provides him with a degree of flexibility thanks to markedly increased government stability.

Economy expanded, but future dependent on Brexit: The UK economy estimated gain in 2019 was 1.3%, according to IHS Markit's January 2020 forecast. The latest developments have lowered the probability of a disorderly Brexit, but this issue is likely to continue to press down on UK growth prospects owing to continued uncertainty. With regard to services, IHS Markit assumes that any UK-EU agreement will not deliver the frictionless trade that UK service providers currently enjoy, implying a future cost to the economy.

Terrorist attack risk is high: The UK faces a heightened risk of both low-capability and more sophisticated jihadist attacks carried out by lone actors or small cells, inspired but not necessarily directed by non-state armed groups such as the Islamic State.

United Kingdom top-10 sectors ranked by value added	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Real estate activities	328.1	1.1	13.1
2. Human health and social work activities	187.8	1.7	7.5
3. Public admin and defense, other services	156.2	0.3	6.2
4. Construction	150.2	1.5	6.0
5. Education	149.5	0.9	6.0
6. Retail trade, except of motor vehicles and motorcycles	142.4	3.9	5.7
7. Legal, accounting, consultancy	108.5	2.0	4.3
8. Wholesale trade, except of motor vehicles and motorcycles	93.6	2.1	3.7
9. Financial service activities, except insurance and pension funding	90.2	-1.4	3.6
10. Security, buildings, employment	83.3	3.1	3.3
Top-10 total	**1489.8**		**59.3**

Source: IHS Markit

Region 8 – Central and Eastern Europe

Central and Eastern Europe	Economy	Politics	Infrastructure	Competence	Overall grade
Czech Republic	2.53	2.63	2.78	3.09	2.73
Greece	1.95	2.25	2.15	1.80	2.04
Hungary	1.60	3.30	2.55	2.32	2.37
Poland	3.00	2.70	2.85	2.87	2.87
Romania	2.70	2.60	1.95	1.35	2.19
Russian Federation	2.70	2.58	2.80	1.59	2.48
Turkey	2.98	1.98	2.58	2.45	2.55
Ukraine	2.15	2.60	2.28	1.80	2.21

Source: IHS Markit

Czech Republic

Strengths and weaknesses

Strengths	Weaknesses
Strategic geographical location, at the periphery of some of Europe's largest markets, including Germany.	Weak governments frequently result in early elections and government changes, leading to policy inconsistency.
Investment-friendly legislation; all mainstream political parties represented in parliament support foreign direct investment.	Despite considerable improvements since 2013, corruption remains a problem, mainly in public tenders.
Developed infrastructure with further plans for ground cargo infrastructural improvement, particularly in terms of links to Poland, Germany, and Austria.	Heavy red tape, particularly related to starting a business and dealing with construction permits.
Safe security environment; protests tend to be peaceful; interstate and civil armed conflicts are highly improbable, while terrorism risk is likely to remain low.	Complicated tax system with cases of arbitrary enforcement, although efforts are ongoing to improve it.

Source: IHS Markit

Politics: Czechia is governed by a minority coalition comprising the centrist ANO of Prime Minister Andrej Babiš and the center-left Czech Social Democratic Party (CSSD), with the ad hoc support of the opposition Communist Party. The latter's involvement poses stability and longevity risks for the government. This is further exacerbated by internal splits within CSSD as well as interference by President Miloš Zeman into policymaking.

Country risks and protests: The government promotes fiscally responsible and investment-friendly policies and is highly unlikely to support the Communists' anti-EU/anti-NATO agenda, maintaining a centrist policy direction with a strongly pro-Western, albeit mildly Euroskeptic trajectory. Structural reforms aimed at simplifying the business environment, increasing the effectiveness of the judicial system, and boosting long-term growth potential will represent the foremost challenges. Large and peaceful demonstrations against Babiš are likely to continue in Prague and other Czech towns in early 2020.

Solid economic growth with downside risks: Following estimated growth of 2.5% in 2019, but downside risks remain elevated in 2020. Factors supporting near-term growth include the solid performance of private consumption, which is benefiting from low unemployment rates and rising wages. Fixed investment is also projected to support growth in 2020, thanks to EU transfers as well as private investment in new technologies and automation

Economic challenges, real estate and housing: Current economic challenges stem from external uncertainty and domestic labor shortages. Amid higher inflation, the central bank raised interest rates eight times from August 2017 to May 2019 (to 2.0%), also affected by the weaker-than-expected koruna and rising real estate prices. Despite macroprudential measures aimed at stemming new lending, growth in both housing loans and real estate prices continued to rise rapidly in 2019. The general government budget was in surplus in 2016-18, but fiscal risks could reemerge as a longer-term challenge, given the aging population.

Czech Republic top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Real estate activities	17.8	2.4	8.1
2. Public admin and defense, other services	16.2	2.2	7.4
3. Construction	12.0	5.0	5.5
4. Wholesale trade, except of motor vehicles and motorcycles	11.5	2.3	5.2
5. Human health and social work activities	9.6	1.8	4.4
6. Education	9.5	1.5	4.3
7. Retail trade, except of motor vehicles and motorcycles	8.9	2.4	4.0
8. Electricity, gas, steam, and air conditioning supply	7.5	2.0	3.4
9. IT and information services	6.8	3.7	3.1
10. Land transport	6.6	1.4	3.0
Top-10 total	**106.5**		**48.5**

Source: IHS Markit

Hungary

Strengths and weaknesses

Strengths	Weaknesses
Infrastructure is well developed across the country and the quality of labor is high, despite shortages in some regions and industries.	Unpredictable nature of policymaking driven mainly by ruling-party's 'populism' and business interests.
Safe operating business environment, with moderate levels of labor or social unrest.	One-off levies or regulation changes are used to offset public spending or distort competition, often at the expense of foreign-owned businesses.
Hungary is open to foreign investment and development, especially in the manufacturing sector, and the corporate tax rate is the lowest in the EU.	Government is increasing its grip on state institutions, such as the central bank and the judiciary, undermining their independence and rule of law.
Political environment remains stable; the government's longevity and its ability to pass laws remain unchallenged after being re-elected overwhelmingly in April 2018.	Corruption and business red tape remain problematic, with very little progress on tackling these issues.

Source: IHS Markit

Politics: Since 2010, Hungary has been ruled by the national-conservative Fidesz party, tightly controlled by Prime Minister Viktor Orbán. Strong popular support for Fidesz (constitutional, two-thirds parliamentary majority since 2018) ensures exceptional government stability by regional standards. The outcome of the October 2019 municipal elections, in which Fidesz suffered a handful of defeats (including the mayoral position in the capital, Budapest), is highly unlikely to change this significantly.

Strong ties with Russia and China: The Hungarian government has adopted a strong anti-immigration stance and regularly uses right-wing rhetoric. This, along with concerns over corruption, the rule of law, and media freedom, has strained relations with fellow EU members. Despite a threat that this may lead to a significant cut in EU funding or the suspension of Hungary's voting rights in the European Council, Hungary is likely to maintain its current policy stance, including strong ties with – and openness toward investments from – Russia and China.

Monetary imbalance: Given global headwinds and moderating inflation, the Hungarian National Bank is unlikely to tighten its monetary policy in 2020. However, years of ultra-low interest rates and unconventional monetary policy tools create imbalances, increasing asset prices and volatility

Economy: After GDP growth of 5.0% in 2018, the highest in 15 years, IHS Markit estimates a deceleration to 4.8% for 2019. The slowdown will be driven by high base effects and weaker domestic demand, including tapering inflow of EU funds. Downside risks stem from a tightening labor market, weakening in the eurozone growth outlook and possible US tariffs on imports from the EU.

Hungary top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Public admin and defense, other services	12.4	0.3	9.5
2. Real estate activities	10.2	3.8	7.8
3. Construction	6.8	31.4	5.2
4. Wholesale trade, except of motor vehicles and motorcycles	6.7	5.4	5.2
5. Retail trade, except of motor vehicles and motorcycles	6.1	5.3	4.7
6. Education	6.0	0.1	4.6
7. Human health and social work activities	5.4	0.2	4.1
8. Agriculture, forestry, and fishing	5.0	-0.6	3.8
9. Land transport	4.2	4.7	3.2
10. Security, buildings, employment	3.8	6.2	2.9
Top-10 total	**66.5**		**51.0**

Source: IHS Markit

Strengths and weaknesses

Strengths	Weaknesses
Poland has a developed, mature, and stable democratic political system, with smooth transition of power.	The ongoing disputes over the judicial reforms with the European Commission carry political, reputational, and regulatory uncertainties.
There is a restricted intervention of policymakers in the private sector.	The judicial system remains overburdened with a backlog of cases and is in need of an overhaul. The outcome of the ongoing legislative process over judicial reforms is, however, very uncertain.
Cheap, educated labor force is attractive for investors. The government has also been gradually opening up restricted positions, thereby increasing overall competitiveness.	The government's strategy to raise budget revenues to manage its welfare programs is likely to result in a forceful tax collection policy, creating an uncertain tax and legislative environment.
Focus on improving road and rail infrastructure, particularly in the generally less-developed eastern and northern parts of the country.	Corruption and bribery remain a problem, particularly in courts, public tenders, and contracts.

Source: IHS Markit

Politics: The pro-Catholic and nationalist PiS party, in power since 2015, won the 13 October 2019 parliamentary election, securing a parliamentary majority in the lower house of parliament, but losing its majority in the Senate, the upper house. This is likely to complicate policymaking in the one-year outlook, as the Senate has the power to amend and delay legislation approved by the lower house. The new distribution of Senate seats will likely particularly affect the introduction of contested legislation on the judiciary and media regulation.

Risk of new retail and digital tax: With the aim of boosting electoral support and keeping GDP growth steady in the face of external malaise, PiS announced a massive fiscal stimulus in February 2019. The government's welfare expenditures raise the risk of new taxes targeting businesses in the two-year outlook, including in particular an implementation of a suspended retail tax and new digital tax.

Risk of doing business: A high level of red tape, overburdened courts, fiscal risks associated with extended welfare spending, and the government's erratic policymaking present the biggest risks to doing business in Poland. The PiS resumed its contested judicial overhaul, proposing a bill that would allow judges criticizing the government's reforms to be disciplined. The Senate will likely amend and delay the bill, without blocking its approval, amid mass protests against the legislation.

Economy to slow: After rising an estimated 4.3% in 2019, GDP growth is projected to slow in 2020 due to domestic and external challenges. Labor shortages, possibly exacerbated by the exit of Ukrainian immigrants, rank among the main domestic constraints to faster growth. Meanwhile, external uncertainty presents downside risks for exports, which have already shown signs of a slowdown since mid-2019. On the upside, household demand and investment will continue to support growth in 2020, benefiting from government welfare spending, rapid wage growth, and inflows of EU funds. Private investment faces downside risks.

Poland top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Retail trade, except of motor vehicles and motorcycles	43.8	4.5	8.4
2. Construction	39.9	8.3	7.7
3. Public admin and defense, other services	36.3	2.6	7.0
4. Wholesale trade, except of motor vehicles and motorcycles	33.1	4.6	6.4
5. Education	23.9	2.6	4.6
6. Real estate activities	23.2	2.0	4.5
7. Human health and social work activities	21.7	2.1	4.2
8. Land transport	21.4	5.9	4.1
9. Electricity, gas, steam, and air conditioning supply	18.0	4.6	3.5
10. Wholesale and retail trade and repair of motor vehicles and motorcycles	16.3	7.6	3.1
Top-10 total	**277.4**		**53.3**

Source: IHS Markit

Romania

Strengths and weaknesses

Strengths	Weaknesses
Substantial natural resources, including natural gas.	Institutional weakness persists, including corruption at national and municipal level.
Ongoing modernization of the country's transport infrastructure, including its ports.	Lack of political consensus and occasional difficult cohabitation between the president and the government, which hinders the legislative process.
Second-largest consumer market in Central and Eastern Europe.	Very poor infrastructure in some regions.
Favorable geographic location.	Regulatory instability and unpredictability.

Source: IHS Markit

Politics: The minority government of the center-right National Liberal Party (PNL) will probably stay in power until the next scheduled parliamentary election in November-December 2020, but the likelihood of holding an early election along with the local election in June 2020 has increased. The PNL cabinet was confirmed in parliament in November 2019, receiving the votes of 240 out of the 465 MPs in parliament. This came after the PNL initiated a successful no-confidence vote against the minority PSD government. The PSD lost its control of the parliamentary majority in August 2019 after the withdrawal of support from its junior coalition partner.

Economy continues to decelerate: We estimate that economic growth has decelerated to below 4% in 2019, while industrial production contracted in a year. Adverse global trends affecting emerging markets and Romania's unbalanced growth with growing current account and fiscal deficits make Romania vulnerable to external shocks and capital outflows. IHS Markit estimates the budget deficit above 4% of GDP in 2019 and 2020, and current-account deficit about 5% of GDP and rising further in 2020.

Policy making may be impacted by volatile government: The volatile political landscape will pose elevated risks of policy reversals and unpredictability throughout 2020, affecting also the tax environment. The electoral cycle (2020 local and general elections) is also likely to continue dominating policymaking. Alterations of contracts and cancellations of tenders started by the previous PSD government are probable.

Household consumption main economy driver: In the one-year outlook, projects to improve Romania's transport infrastructure will probably be affected by budget cuts and inefficient implementation. The rising budget deficit and unpredictable tax environment are adverse indicators both for public and private sector investment. The low base and EU structural support encouraged stronger investment growth in 2019; however, continuation of this trend in not likely. Household consumption will remain the main growth driver for Romania's economy, but economic growth will weaken as the external environment remains challenging while unit labor costs have risen significantly.

Romania top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Real estate activities	18.1	3.5	8.5
2. Retail trade, except of motor vehicles and motorcycles	14.1	4.6	6.6
3. Public admin and defense, other services	13.0	2.3	6.1
4. Construction	13.0	9.1	6.1
5. Land transport	11.6	4.6	5.4
6. Agriculture, forestry, and fishing	10.8	1.8	5.0
7. Human health and social work activities	8.1	2.5	3.8
8. Education	8.1	2.5	3.8
9. Telecommunications	8.0	7.2	3.7
10. Wholesale and retail trade and repair of motor vehicles and motorcycles	7.7	5.2	3.6
Top-10 total	**112.5**		**52.5**

Source: IHS Markit

Russia

Strengths and weaknesses

Strengths	Weaknesses
Under Putin's "power vertical", the government has the capability to implement policy without serious political impediments. Earlier tax and legal reforms, some spurred by World Trade Organization (WTO) membership since 2012, have improved the business environment, at least on paper. Vast natural resource potential gives Russia outstanding international strategic leverage, especially in energy, mining, and agricultural sectors. Opaque and unpredictable legal and taxation implementation often creates opportunities for widespread corruption across most sectors. Technological expertise and comparatively high educational levels, especially in population centers such as Moscow, St. Petersburg, and another 13 cities with populations of over 1 million.	Negative impact of current and potential targeted and sector-based sanctions by the US, EU, Canada, and Japan increases regulatory uncertainty. Economic overdependence on the energy sector and lack of economic diversification, with the government's role in the economy still excessive, especially in energy, transportation and financial sectors. Opaque and unpredictable legal and taxation implementation often creates opportunities for widespread corruption across most sectors.

Source: IHS Markit

Politics: Proposed constitutional amendments and a government reshuffle announced in January 2020 indicate transitional arrangement to extend President Vladimir Putin's rule beyond 2024, when his current term expires. Perceived security considerations of the ruling elites are likely to be prioritized in key policy decisions over economic growth, even if this means significant economic sacrifices to the general public. Russia is likely to continue with its assertive foreign policy, especially in Ukraine and the Middle East. Russia will aim to project its power—militarily, politically, and economically—outside its borders, especially in Eastern Europe, Central Asia, and the Middle East.

Sanctions and regulatory restrictions: Existing Western sanctions—which are likely to become increasingly permanent—combined with the threat of new restrictions, especially by the US, and retaliatory domestic regulatory restrictions, will continue to damage the operational environment for doing business in Russia across multiple sectors into 2020-21, with financial and energy sectors most likely targets for potential new sanctions.

Protest risk is small: Despite continued economic weaknesses and significant spending cuts, protests are likely to be small and geographically isolated. Terrorism, mostly manifested via small-scale attacks by individual jihadists or by small cells, is likely to remain geographically localized in the Muslim-majority republics of the North Caucasus, targeting mostly government assets such as police stations or military installations.

Economy: The Russian economy has recovered from the latest recession. However, weak domestic demand and modest export growth prospects will decelerate real GDP growth from 2.3% in 2018 to 1.1% in 2019. In the medium term, the lack of structural reforms and the impact of sanctions will prevent Russia from achieving its full economic potential.

Inflation: Annual inflation will continue decelerating after a moderate pickup in the first half of 2019. However, rising wages and incomes will elevate 2020-21 annual average inflation above the Russian central bank's 4% target.

Russia top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Wholesale trade, except of motor vehicles and motorcycles	135.4	1.3	9.0
2. Public admin and defense, other services	116.1	0.0	7.7
3. Construction	113.6	1.1	7.5
4. Extraction of crude petroleum and natural gas	110.8	0.7	7.4
5. Retail trade, except of motor vehicles and motorcycles	90.1	1.7	6.0
6. Real estate activities	87.0	-0.8	5.8
7. Financial service activities, except insurance and pension funding	84.3	3.0	5.6
8. Human health and social work activities	64.8	1.4	4.3
9. Agriculture, forestry, and fishing	63.1	0.5	4.2
10. Land transport	62.6	2.4	4.2
Top-10 total	**927.8**		**61.6**

Source: IHS Markit

Ukraine

Strengths and weaknesses

Strengths	Weaknesses
Geographical location as a key transit route between Europe, Russia, and the Black Sea; physical proximity to the EU market.	Strong political and economic influence of certain powerful businessmen (oligarchs), often owning media assets and involved in politics at all levels.
Improved regulatory environment following accession to the WTO in 2008.	Continued armed conflict in the east of the country and persistent political instability in Kyiv, especially following the 2019 presidential and parliamentary elections and government handover causing policy changes.
Large, trained, and educated workforce, and significant industrial and agricultural capacity.	Widespread corruption at all levels despite declared government efforts to tackle it.
EU Association Agreement facilitating bilateral trade with the European Union and IMF-mandated reforms to improve business environment in the longer term.	Deteriorated relations with Russia causing trade restrictions and bans, including on transit trade with China and Central Asia.

Source: IHS Markit

Politics: The outcome of the July 2019 parliamentary election, producing the 56% majority of MP seats taken by President Volodymyr Zelenskyi's Servant of the People (Sluha Narodu: SN) party, solidified the new president's position. SN's outright majority, the first ever in modern Ukrainian history, eliminated the need to establish a coalition for a stable government, giving the party a clear mandate to implement its chosen policies.

Economic reform and new cabinet direction: Appointment of the reformist lawyer Oleksiy Honcharuk as the new prime minister indicates the new cabinet's likely overall pro-EU and pro-reform policy direction, despite the SN's vaguely defined and generalist political platform. This will be critical for the continued political and financial support from IMF and Western donors, which will remain vital, considering the external liquidity pressures to service debt in 2020-21. However, pro-reform orientation of the cabinet is not guaranteed due to ongoing influences by powerful oligarchic interests on the government's policy implementation and state contract allocation.

Conflicts and risk: The hybrid conflict in Donbas between government forces and Russian-equipped, funded and supported separatist militias remains ongoing as of January 2020, and parts of Donetsk and Luhansk regions are likely to remain effective Russian protectorates for the foreseeable future. Controlled de- and re-escalations along the geographically stable line of contact in Donbas are likely, aimed to achieve political objectives by both warrying parties.

Economy: Ukraine's real GDP growth is expected to slightly ease in 2020 from estimated 3.5% full-year gains in 2018 and 2019. Domestic demand will be the key driver of near-term growth. Economic activity both in 2018-19 was driven by private consumption and fixed investment, but net exports remained weak.

Credit and debt: Foreign exchange reserves have been bolstered by access to multilateral financing and commercial borrowing. However, prolonged delays in credit disbursement from the IMF could once again thin the foreign exchange buffer, already under pressure from about USD20 billion debt repayment due in 2020-21.

Ukraine top-10 sectors ranked by value added	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Agriculture, forestry, and fishing	13.7	4.0	12.4
2. Wholesale trade, except of motor vehicles and motorcycles	9.3	3.7	8.4
3. Iron and steel construction	8.5	3.5	7.7
4. Manufacture of food products	8.5	0.3	7.7
5. Public admin and defense, other services	7.6	3.6	6.9
6. Real estate activities	7.5	4.7	6.8
7. Education	5.3	-2.6	4.8
8. Retail trade, except of motor vehicles and motorcycles	4.9	3.2	4.5
9. Land transport	4.9	1.7	4.5
10. Mining of metals and stone	4.4	-0.3	4.0
Top-10 total	**74.6**		**67.5**

Source: IHS Markit

Greece

Strengths and weaknesses	
Strengths	**Weaknesses**
“Clean” bailout exit and likely maintained political willingness to apply post-bailout reforms.	Corruption, lack of transparency and efficiency in various state institutions, and tax avoidance still represent serious problems.
Improving “doing business” process, including easing conditions for setting up businesses, judicial procedures (including contract enforcement), bankruptcy proceedings, and deregulation of closed professions, making the labor market more flexible.	Slow bureaucratic and judicial procedures, protectionism, and legal ambiguity substantially delay the establishment of new businesses.
Attempts to promote Greece as a regional transport and energy hub and a gateway to MENA through various infrastructure projects, particularly related to Piraeus Port and Thessaloniki Port.	Strong unions, frequent strikes, and the lack of public support delay structural reforms suggested to streamline the economy.
Streamlining tax administration and cutting business red tape in general.	Likely protests by left-wing and anarchist groups, staged mainly in Athens.

Source: IHS Markit

Economy: Following nine years of continuous recession, Greek GDP is projected to grow for the fourth consecutive year in 2020. Growth will be modest, however, supported by improving domestic demand conditions. However, Greece’s economy is not dynamic enough to generate sustainable strong growth and we expect its recovery to be gradual and prone to relapses.

Politics: The center-right New Democracy (Néa Dimokratía: ND), previously in opposition, won an absolute majority of 158 seats in the 300-seat parliament in the snap parliamentary election in July 2019. This enabled the ND to form a government on its own. The absolute majority is likely to ease parliamentary approval of reform-oriented initiatives, such as reducing the tax and administrative burden and streamlining judicial processes. Strict post-bailout monitoring is likely to assure policy continuity.

Taxes, privatization, and infrastructure: The new administration is likely to lower taxes, including cuts to corporate, dividend, and value-added tax in the two-year outlook, probably implemented gradually. Measures to reduce tax evasion are probable. The government will probably proceed with planned privatizations, including in the energy sector, and streamline the implementation of large infrastructure projects. The ND will attempt to renegotiate lowering the fiscal targets agreed with Greece's official lenders. Greece is currently expected to run a primary surplus (which excludes interest payments).

Port disruptions and protests: A probable move to reform the public administration and the ongoing privatization drive are likely to trigger industrial action throughout 2020, causing stoppages at public services and blocking and disrupting major ports, roads, and border crossings. Incidents involving left-wing militants and anarchist groups targeting Western companies and state institutions with IEDs are likely. Limited violence during anti-government demonstrations in Athens and Thessaloniki is also probable, including the use of Molotov cocktails, arson, and vandalism.

Greece top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Real estate activities	31.4	0.3	16.5
2. Public admin and defense, other services	26.1	-1.4	13.7
3. Accommodation and food service activities	13.3	1.9	7.0
4. Education	11.5	-0.5	6.1
5. Wholesale trade, except of motor vehicles and motorcycles	11.3	1.8	6.0
6. Human health and social work activities	8.2	-0.6	4.3
7. Agriculture, forestry, and fishing	7.5	-0.7	4.0
8. Retail trade, except of motor vehicles and motorcycles	6.9	0.8	3.6
9. Water transport	6.0	3.7	3.2
10. Manufacture of food products	5.5	0.3	2.9
Top-10 total	**127.7**		**67.1**

Source: IHS Markit

Turkey

Strengths and weaknesses

Strengths	Weaknesses
Large unsaturated market and growing young consumer population.	Elevated likelihood of terrorism and protests, entailing collateral risks to business operations and personnel.
Low labor costs, now driven further down with the Syrian refugee influx.	High consumption taxes.
Strategic geographic location near to European and Middle Eastern markets.	High dependency on energy imports, adding pressure to an already wide current-account deficit.
An ambitious infrastructure investment program, particularly focusing on transport infrastructure.	Discriminatory treatment of companies affiliated with the government's political rivals.

Source: IHS Markit

Erdogan remains Turkey's most popular politician: Turkey's local elections on 31 March 2019, held during an economic recession, saw President Recep Tayyip Erdoğan's Justice and Development Party (AKP) lose key municipalities, including Istanbul and Ankara, to the opposition. AKP dissidents are expected to establish two splinter parties by early 2020. However, Erdoğan's domestic popularity will likely be buttressed by Turkey's ongoing confrontation with regional adversaries, including with Greece and Cyprus over gas reserves in the Eastern Mediterranean.

Elevated risk of Kurdish attacks: There is an elevated risk of retaliatory attacks by the Kurdish separatist Partiya Karkerên Kurdistan (PKK) in western Turkish cities, targeting mainly the security forces. The risk of attacks by Islamic State affiliates is muted.

Lira suffered losses: There is a high likelihood, by mid-2020, of punitive measures by the US Congress over Turkey's northeast Syrian offensive, which would risk a renewed Turkish lira collapse. Already, the lira suffered intense losses in October, following a period of relative stability in the preceding few months. The lira's underlying resilience was recently undermined by aggressive interest rate cuts under a newly installed central bank governor. Besides doubts over central bank independence, a key weakness in the Turkish economy is high short-term external obligations in the private sector.

Potential for second recession: Aggressive fiscal and monetary policy loosening—jeopardizing lira stability—is being pursued to stimulate domestic demand, which has contracted since late 2018. These pro-growth policies should end economic losses in the fourth quarter of 2019, but subsequent growth throughout 2020 will likely be modest. A renewed lira collapse would raise the potential for a second recession.

Risk of external financing due to deficits: Weak domestic demand has significantly cut merchandise and service imports, as a result balancing the current account, which was once in substantial deficit, with monthly surpluses even arising. Given efforts to stimulate domestic demand, the current account will likely slip back into a slight deficit in 2020. Overall, external financing remains difficult given a lack of steady capital inflows.

Turkey top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Real estate activities	65.5	0.4	9.3
2. Construction	62.6	-8.6	8.9
3. Agriculture, forestry, and fishing	47.4	2.7	6.8
4. Wholesale trade, except of motor vehicles and motorcycles	41.6	0.3	5.9
5. Public admin and defense, other services	39.7	-10.7	5.7
6. Education	38.6	4.9	5.5
7. Retail trade, except of motor vehicles and motorcycles	31.3	-1.8	4.5
8. Human health and social work activities	23.6	4.8	3.4
9. Accommodation and food service activities	20.9	-3.1	3.0
10. Land transport	20.1	-2.3	2.9
Top-10 total	**391.2**		**55.7**

Source: IHS Markit

Region 9 – North and Central America

North and Central America	Economy	Politics	Infrastructure	Competence	Overall grade
United States	3.03	3.10	3.78	3.67	3.39
Canada	2.95	3.10	3.70	3.42	3.30
Mexico	3.00	2.28	2.30	2.59	2.56
Costa Rica	2.08	2.83	1.28	1.84	1.94
Panama	2.48	2.45	1.88	1.75	2.15

Source: IHS Markit

United States

Strengths and weaknesses

Strengths	Weaknesses
The legal system is clear, pro-business, and generally transparent.	Despite recent reductions, many businesses find taxes overly complicated.
The labor market is flexible and dynamic and the government bureaucracy is relatively efficient.	A recent wave of trade protectionism raises the possibility of policy uncertainty around existing trade agreements.
The United States has a well-developed, albeit aging, infrastructure and can cope with disasters better than most countries.	The country is extremely litigious, particularly over the issues of equal opportunities and unfair dismissal.
Higher education produces a large number of skilled graduates.	Violent crime, albeit decreasing, remains higher than in most wealthy countries and risks of cyber attacks have increased.

Source: IHS Markit

Politics: In mid-term elections held in November 2018, Democrats took a majority in the House of Representatives, while Republicans extended their Senate majority. Given the congressional composition, policy gridlock has become a reality. The Trump administration continues to rely on executive actions to pursue its America First agenda, particularly on sanctions (including those directed against Iran and Venezuela), trade relations with China and Mexico, deregulation, and immigration.

Risks: Although organized attack risks remain, radicalized Islamist and domestic right-wing groups and individuals pose a more imminent threat. Issue-driven protests, including around immigration, gun control, or reproductive rights, are common, with an increasing likelihood of demonstrations by left- and right-wing organizations.

Economy: Following 2.2% GDP growth this year (fourth quarter to fourth quarter), IHS Markit expects GDP growth to continue at a slightly above-trend pace. The end to the GM strike, a resumption of 737 MAX shipments in 2020, and spending on the decennial census will raise growth in 2020.

Solid growth with soft inflation and low interest rates: With inflation readings coming in soft, we expect the Federal Reserve to remain on hold through mid-2021. Lower interest rates and solid growth have helped boost the S&P 500 index to a near-30% increase.

United States top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Real estate activities	2490.4	2.0	12.2
2. Public admin and defense, other services	1953.3	1.1	9.5
3. Human health and social work activities	1526.1	5.9	7.4
4. Wholesale trade, except of motor vehicles and motorcycles	1234.0	1.5	6.0
5. Education	1038.1	2.4	5.1
6. Security, buildings, employment	926.0	3.4	4.5
7. Retail trade, except of motor vehicles and motorcycles	914.2	2.1	4.5
8. Construction	840.0	-3.7	4.1
9. Financial service activities, except insurance and pension funding	660.8	4.2	3.2
10. Accommodation and food service activities	615.6	2.9	3.0
Top-10 total	**12198.5**		**59.5**

Source: IHS Markit

Canada

Strengths and weaknesses

Strengths	Weaknesses
Canada has a fair and competitive tax system. Canada's securities regulators are embarking upon a sweeping review of the regulatory burden firms face in Canada. The legal system is mature and well-defined and derived from the English common law system except in Québec, which has a hybrid system derived from precedent-based English Common Law and French Civil Law. Canada's government is pro-trade and economically liberal, strongly supporting multilateral trade agreements, including the recently agreed Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).	Tax levels vary greatly by province, increasing costs deriving from their complexity. Canada does not have a centralized securities regulator, despite years of attempts to establish one, as provinces have constitutional authority over securities regulation. Interprovincial trade barriers remain, regulatory heterogeneity increases costs for businesses operating between provinces. Physical cross-border trade with the US is a bottleneck, given various trade disputes, post-2001 security concerns, and over-reliance on the Windsor-Detroit Ambassador bridge.

Source: IHS Markit

Politics: Justin Trudeau's Liberal Party won the October 2019 election, although with a reduced minority status. With the Liberals losing substantial support in western Canada, relations with Conservative party-led provincial governments will remain strained, especially in Alberta. Canadians mostly support the government in its attempts to manage the recent US-Mexico-Canada Agreement (USMCA) trade renegotiations and Canada's broader relationship with the US. Regulations continue to differ significantly between provinces and barriers continue to impede interprovincial trade.

Risks: There are ongoing, moderate risks of protests by indigenous and left-wing activists targeting natural resource projects, which are moderately likely to include low-level property damage, as well as intermittent jihadist plots.

Economy: Canada's real GDP was revised downward a touch to 1.9% in 2019, owing to expectations of softer-paced growth in both household spending and fixed investment.

Interest rates hold steady: The Bank of Canada will remain on the sidelines for the time being, holding the policy interest rate at 1.75% as the Governing Council continues to point to lingering risks weighing on growth. As economic activity picks up in the coming months, the bank is expected to raise rates in the second quarter, with one more hike this year occurring in the fourth quarter.

Canada top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Real estate activities	200.3	1.9	12.4
2. Public admin and defense, other services	136.8	2.5	8.4
3. Human health and social work activities	123.8	3.0	7.6
4. Construction	112.9	-3.5	7.0
5. Extraction of crude petroleum and natural gas	103.4	2.6	6.4
6. Financial service activities, except insurance and pension funding	98.9	2.9	6.1
7. Education	93.5	2.3	5.8
8. Wholesale trade, except of motor vehicles and motorcycles	74.5	1.1	4.6
9. Retail trade, except of motor vehicles and motorcycles	63.8	1.2	3.9
10. Accommodation and food service activities	36.8	2.6	2.3
Top-10 total	**1044.7**		**64.5**

Source: IHS Markit

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Mexico

Strengths and weaknesses

Strengths	Weaknesses
Mexico is party to free trade agreements that comprise a total of 46 countries and 32 bilateral investment treaties. The country offers competitive wages and has well-integrated supply chains with its main export market, the US, reducing transport cost. In most economic activities, foreign investors may participate freely and are allowed to hold up to 100% of stocks in any company incorporated in Mexico.	The country is largely dependent on the United States, which captures about 81% of Mexico's exports. This makes it highly vulnerable to the performance of the US economy and any protectionist measures implemented by the US. Bureaucracy is slow and cumbersome, with corruption widespread nationally, particularly at the state and local levels where institutions are weak and often infiltrated by crime. The security environment has been deteriorating rapidly over the past year as warring drug cartels have fragmented, increasing homicides, extortion, kidnapping, and supply chain risks (cargo theft and protest-related disruptions). Institutions are weak, vulnerable to corruption, and unable to effectively combat the cartels.

Source: IHS Markit

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Politics are getting harder for investors: Mexico's business environment has deteriorated under President Andrés Manuel López Obrador (AMLO). He has reversed the opening of the hydrocarbons sector to private investment through the cancellation of bid rounds, cancelled the USD13 billion Mexico City airport via referendum, cancelled the Los Cardones mining project, suspended bidding rounds in the renewables sector, and eliminated special economic zones that were meant to grant tax incentives to investors. Companies operating in the electricity sector face a high risk of contract revisions, cancellations, or regulatory changes.

Economy: The Mexican economy is on the brink of recession, with IHS Markit forecasting the country's GDP to be flat in 2019. AMLO's policies toward the private sector and his government's style have also eroded business confidence in Mexico. IHS Markit's Mexico Manufacturing Purchasing Managers' Index (PMI™), which analyzes surveys of senior executives at private-sector companies to provide insight on economic drivers such as GDP, inflation, exports, capacity utilization, employment, and inventories, showed business confidence in December 2019 at its lowest point since 2012 (PMI index at 48, with a value of less than 50 indicating deteriorating conditions).

Government is unable to manage cartels in Mexico: The Mexican Security forces' retreat and release of an arrested drug cartel leader, after the Sinaloa cartel deployed 800 gunmen and blocked multiple roads by setting vehicles on fire in Culiacán, Sinaloa, highlighted the state's inability to fight organized crime nationwide. The US administration's plan to designate the cartels as terrorist organizations increases the risk that they would retaliate violently against US interests in Mexico.

2019 most violent year in history: Homicide victims totaled 28,649 during January-November 2019, 7.5% higher than the same period in 2018, part of a trend that made 2019 the most violent year in the country's history. Cargo theft and extortion risks will likely increase as criminal organizations diversify revenue streams by starting activities other than drug trafficking.

Mexico top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Real estate activities	125.2	1.2	10.8
2. Wholesale trade, except of motor vehicles and motorcycles	117.3	1.2	10.1
3. Retail trade, except of motor vehicles and motorcycles	114.8	1.0	9.9
4. Construction	87.0	-2.6	7.5
5. Public admin and defense, other services	67.9	3.4	5.9
6. Land transport	66.1	0.8	5.7
7. Education	48.5	-0.1	4.2
8. Manufacture of food products	44.1	1.9	3.8
9. Agriculture, forestry, and fishing	40.6	2.7	3.5
10. Financial service activities, except insurance and pension funding	39.6	2.0	3.4
Top-10 total	**751.2**		**65.0**

Source: IHS Markit

Costa Rica

Strengths and weaknesses

Strengths	Weaknesses
The government has a positive and open attitude to foreign investment.	A lack of agreement among political parties on how to address a persistent fiscal deficit is increasing political and economic instability.
Costa Rica is politically stable and has relatively strong public institutions by regional standards.	Modest steady increases in violent crime, cargo transportation robberies, and drug trafficking risks.
Skilled, educated, and multi-lingual labor is readily available.	Environmental activism is high, which can delay project development.
The legal system compares positively with the rest of Central America and levels of corruption are among the lowest in the region.	Disruptions to cargo through major ports due to infrastructure project delays and transport worker strikes affect delivery schedules.

Source: IHS Markit

Politics are focused on debt control and fiscal stabilization: President Carlos Alvarado has made stabilizing Costa Rica's fiscal situation his primary focus since taking office in May 2018. The fiscal deficit is forecast by IHS Markit to remain at about 6% of GDP in the short term, but public-debt stock continues to grow. Fiscal legislation implemented in July 2019 is aiming to reduce the fiscal deficit through public spending cuts, conversion of the 13% sales tax into a 13% value-added tax (VAT) on goods and services, new taxes on basic basket items, and higher capital gains tax.

Roadblocks and cargo disruptions are likely: Unionized sectors have opposed the government's fiscal plan with a series of nationwide strikes. These stoppages, sustained by the education and health sectors, are likely to continue during 2020, especially against public sector spending cuts in the 2020 budget, stricter enforcement of the new VAT, and a bill under discussion to impose restrictions on strikes. Roadblocks and cargo disruption remain likely as a result of strikes, as well as disruption to public services.

Economy: IHS Markit expects a slight depreciation in the Costa Rican colón in the coming months because of commodity price volatility. It was trading at an average of CRC563:USD1 in December 2019. GDP growth is expected to remain subdued in the short term at about 1.8% in 2019.

Costa Rica top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Real estate activities	5.0	2.3	8.9
2. Education	4.6	2.6	8.3
3. Public admin and defense, other services	4.2	3.1	7.5
4. Human health and social work activities	3.9	2.7	7.1
5. Agriculture, forestry, and fishing	3.1	1.4	5.6
6. Retail trade, except of motor vehicles and motorcycles	2.7	1.8	4.9
7. Construction	2.5	2.5	4.6
8. Manufacture of food products	2.5	1.0	4.5
9. Wholesale trade, except of motor vehicles and motorcycles	2.4	2.7	4.3
10. Security, buildings, employment	2.1	3.3	3.8
Top-10 total	**33.0**		**59.4**

Source: IHS Markit
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Panama

Strengths and weaknesses

Strengths	Weaknesses
Panama's legal environment is business friendly and oriented to attract foreign direct investment.	Weaknesses remain in democratic institutions and some financial oversight mechanisms.
A convenient geographic location, which connects the Pacific and Atlantic coasts through the Panama Canal.	High levels of corruption and red tape continue to affect everyday business dealings.
Crime rates are low by Latin American standards and Panama is one of the least dangerous countries in Central America.	Environmental and labor activism is common, posing operational constraints to projects particularly related to natural resources.
Panama is a well-connected financial and logistics hub with a dollarized economy.	Income inequality and poverty are persistent issues and contribute to fairly frequent well-organized labor strikes and protests.

Source: IHS Markit
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Politics: Laurentino Cortizo, of the Democratic Revolutionary Party (Partido Revolucionario Democrático: PRD), took office on 1 July 2019 after winning the May election with 33.4% of the vote. The PRD and its coalition partner Nationalist Republican Liberal Movement (Movimiento Liberal Repúblicana Nacional: MOLIRENA) hold 40 of the 71 seats in the National Assembly. This legislative majority has facilitated the passing of legislation in the National Assembly.

Focus on reduced corruption and increase foreign investment: Cortizo is prioritizing measures to reduce government corruption and boost economic growth. He oversaw the successful approval of a public-private partnership law to attract greater foreign investment, however other campaign priorities such as constitutional reforms and changes to the public procurement law to increase transparency in contract awarding have faced setbacks in the legislature and among the public, which are delaying their progress. Cortizo is pro-business, but he favors Panamanian agricultural and industrial products over imports, and his administration is likely to revise infrastructure contracts awarded during the last year of his predecessor's administration.

Economic slowdown: Economic growth was expected to have slowed to 3.2% of GDP at end-2019. This moderate decline is a result of weaker global growth, trade tensions between the US and China, weak private investment in sectors such as construction, and delays to projects such as suspension of the fourth bridge over the Panama Canal.

US and China tensions pose threat to economy: Service activities related to the expansion of the Panama Canal, such as increase in transport and storage facilities and expansion of the Colón Free Trade Zone (ZLC) activities, are expected to continue expanding during 2020; however, weaker global growth and trade tensions between the United States and China will continue to pose a threat to the country's economic outlook in the short-to-medium term and are having a direct negative impact on canal revenues.

Panama top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Construction	12.2	3.1	19.0
2. Retail trade, except of motor vehicles and motorcycles	6.5	3.3	10.2
3. Wholesale trade, except of motor vehicles and motorcycles	5.5	3.6	8.5
4. Financial service activities, except insurance and pension funding	3.7	4.9	5.8
5. Land transport	3.7	5.9	5.8
6. Real estate activities	3.5	5.9	5.4
7. Public admin and defense, other services	2.6	7.3	4.0
8. Manufacture of food products	2.2	2.4	3.5
9. Warehousing and support activities for transportation	2.1	4.5	3.3
10. Accommodation and food service activities	2.1	3.7	3.3
Top-10 total	**44.2**		**68.9**

Source: IHS Markit

Region 10: South America

South America	Economy	Politics	Infrastructure	Competence	Overall grade
Argentina	2.45	2.45	2.23	1.97	2.29
Brazil	2.98	2.53	2.48	2.51	2.64
Chile	1.95	2.63	2.35	2.51	2.32
Colombia	2.20	2.90	1.55	1.50	2.01
Peru	2.40	2.60	1.30	2.33	2.10
Uruguay	1.90	2.48	1.63	1.95	1.94
Venezuela, RB	1.98	1.98	1.75	2.08	1.93

Source: IHS Markit

Argentina

Strengths and weaknesses

Strengths	Weaknesses
Huge natural resources in agriculture, hydrocarbons, lithium, and other minerals give Argentina significant economic potential and make it a potentially attractive destination for investment. By regional standards, Argentina provides good infrastructure, a highly educated and well-skilled workforce, and among the lowest levels of violent crime in the region. President Alberto Fernández is considered moderate, but he needs to build his own political base in order to implement policies favorable to the private sector.	The new government's economic policy of increasing public expenditure and abandoning austerity does not bode well for Argentina's chances of restructuring debt with the IMF and private creditors. This increases the risk of another default and capital flight. President Fernández has assembled a coalition of the main Peronist factions, which gives his government a comfortable position in Congress. Factional infighting is likely to emerge if the economy does not recover and inflation remains high, causing civil unrest and industrial action to escalate. The lack of a clear long-term policy to tackle macroeconomic imbalances is likely to exacerbate currency risk that will fuel further increases in inflation. Under these conditions, capital controls are likely to remain and even be deepened.

Source: IHS Markit

Politics: Alberto Fernández of the Peronist coalition Frente de Todos was inaugurated as president on 10 December 2019. He inherits a country in recession, hamstrung by a lack of funding to honor sovereign debt; currency controls; and high inflation. Fernández's chances of success rely heavily on its ability to restructure debt with the IMF and private creditors. Former president Cristina Fernández de Kirchner will serve as vice president, increasing the likelihood of state-interventionist policies.

Economy is in recession: GDP contracted 2.5% in 2018 and is expected to fall by 2.8% in 2019, while inflation is likely to reach 54% in 2019. One of Fernández's first challenges will be to renegotiate a USD57 billion agreement with the IMF, by seeking extended debt maturity and easing of fiscal targets. Fernández is still to unveil an economic plan that permits meaningful negotiations with creditors, although initial comments by IMF representatives suggest they overall agree with the first measures he has announced. However, Fernández will prioritize poverty reduction and a fiscal stimulus over debt re-payment.

Increased risk of deficit: The previous government's decision to reprofile domestic debt—short-term debt maturity was extended unilaterally—in August 2019, led rating agencies to downgrade Argentina further to reflect the increased risk of default. After the election, the central bank tightened capital controls, severely limiting access to US dollars to individuals. President Fernández is likely to maintain and even deepen these controls to prevent capital flight.

High risk of protests: The risk of protests and strikes will recede for now, until the new government outlines its fiscal and monetary policies. Labor unions and other social organizations close to Kirchnerism and which voted for Fernández will give the new president some respite, at least during his first six months in office, but social peace would prove short-lived if the new government opts for stringent cuts in public expenditure.

Argentina top-10 sectors ranked by value added	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Public admin and defense, other services	46.3	-0.4	10.3
2. Retail trade, except of motor vehicles and motorcycles	33.7	-3.0	7.5
3. Wholesale trade, except of motor vehicles and motorcycles	33.3	-0.4	7.4
4. Education	31.9	0.7	7.1
5. Human health and social work activities	28.0	0.5	6.2
6. Agriculture, forestry, and fishing	25.8	7.6	5.7
7. Construction	22.2	-6.2	4.9
8. Real estate activities	21.4	-2.4	4.8
9. Extraction of crude petroleum and natural gas	14.2	3.9	3.2
10. Manufacture of food products	11.6	-1.1	2.6
Top-10 total	**268.4**		**59.7**

Source: IHS Markit

Brazil

Strengths and weaknesses	
Strengths	**Weaknesses**
Very large natural resources in agriculture, hydrocarbons, and minerals give Brazil substantial economic potential and make it an attractive destination for investment.	Cumbersome bureaucracy, an inflexible labor market, infrastructure bottlenecks, and low productivity make the cost of doing business in Brazil high compared with other major emerging market economies.
Largest economy in Latin America, a sizeable middle class, and a large domestic market (population of 200.4 million) offer significant investment opportunities.	Corporate taxes are very high by regional standards; a complex regulatory environment compounds this.
Growing opportunities for investment in private infrastructure concessions as well as energy; the Bolsonaro government is pro-business and committed to privatization as a way to raise revenues to narrow a widening fiscal deficit.	Security remains a concern, particularly theft and ground cargo robbery. Historically high levels of state intervention in the economy, trade protectionism, and corruption undermine the operational environment, adding to the so-called “Brazil cost”.

Source: IHS Markit

Government working on deficit reduction: The Jair Bolsonaro government’s main challenge is to move ahead with the second phase of a proposed fiscal adjustment via the administrative and tax reforms. The government will continue prioritizing the reduction of Brazil’s unsustainable fiscal deficit; the approval of the pension reform in October 2019 will help to stabilize rapidly growing public debt. This is boosting business confidence and spurring economic growth. This and the willingness of the leaders of Congress to work with the government have contributed to a marked improvement in the business environment.

Pro-market and privatization may be at risk: Bolsonaro is currently not aligned with a political party, after having resigned to the PSL in November 2019. The lack of a cohesive base in Congress, poses reversal risk for the pro-market business reform, including privatization, to be pursued in 2020.

Market sentiment improved: Brazil’s external position is strong—the current-account deficit is small (about 1% of GDP), while ample foreign-exchange reserves stood at USD379 billion in 2019. Market sentiment has improved under the Bolsonaro administration: his government is considered by market practitioners to be pro-business and favorable to the urgently needed fiscal adjustments. The Brazilian real has depreciated slightly recently, with fiscal challenges being significant. IHS Markit forecasts a fiscal deficit of 6.3% of GDP in 2019, with the primary fiscal position, which has been in deficit since 2014, showing slight signs of reversal.

Economy: IHS Markit forecasts a slowdown in 2019, with GDP growth coming in at 1.1%. The manufacturing sector has been picking up, reflecting improved consumer demand and growing business confidence; this could be boosted if the government succeeds in implementing critical fiscal reforms, particularly the tax reform. Reversals on the latter risk loss of investor confidence, threatening an upward spike in Brazil's funding costs, reduced debt-market access, and a sharp downward correction to equity valuations, encouraging large-scale portfolio withdrawals and renewed currency pressure.

Brazil top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Public admin and defense, other services	205.4	0.3	11.8
2. Real estate activities	165.7	2.8	9.5
3. Retail trade, except of motor vehicles and motorcycles	113.9	1.4	6.5
4. Education	109.2	0.2	6.3
5. Agriculture, forestry, and fishing	86.6	0.1	5.0
6. Human health and social work activities	81.8	0.2	4.7
7. Wholesale trade, except of motor vehicles and motorcycles	69.3	1.2	4.0
8. Construction	67.1	-0.1	3.8
9. Financial service activities, except insurance and pension funding	65.3	1.0	3.7
10. Security, buildings, employment	60.6	1.2	3.5
Top-10 total	**1025.6**		**58.7**

Source: IHS Markit

Chile

Strengths and weaknesses

Strengths	Weaknesses
Vast mining potential combined with government strategy to address challenges concerning the sector.	Pending improvements to energy transmission lines and water scarcity (in the northern regions) are operational concerns.
Business-friendly legal framework, facilitating the entry of foreign direct investment.	Students, unions, and anti-government groups are prepared to vandalize commercial property and loot commercial establishments as a means of opposing or demanding concessions from the government. Mounting levels of environmental activism can frustrate the development of extractive industry projects.
High levels of human capital compared with the rest of the region	Active trade union movement can cause operational delays and increase wage-related costs.
Impartial and professional judiciary improves trust in trade and investment disputes.	Vulnerability to natural disasters.

Source: IHS Markit

Civil unrest: Chile has experienced unprecedented levels of civil unrest since 18 October 2019, with massive peaceful protests occurring alongside violent incidents, such as looting and arson. Although the number of violent incidents has significantly declined since December 2019, they occur almost daily, particularly in Santiago city center and peripheral areas.

New constitution and referendum in 2020: Protests were triggered by a subway fare increase, but expanded to wider grievances including inequality, the cost of living, pensions, healthcare, and education. Measures announced by the government, such as changes to pension and tax reform currently in Congress, did not quell demonstrators, who demand a deep change in the economic model. On 15 November 2019, the government agreed with most political parties to launch a process for a new constitution, which includes a referendum in April 2020.

Arson and looting potential is high: Isolated incidents of arson and looting are likely to recede in the holiday months of January and February, but to restart in March after the parliamentarian recess and during the political campaign ahead of the referendum. Public transport infrastructure, mainly the Santiago subway (Metro) has been a main target of arson. Retail stores, mainly supermarkets, are main targets of looting. Bank branches, government offices, police stations, restaurants, and churches have also been vandalized.

Impeachment and calls for president to step down: President Sebastián Piñera, although highly unpopular, is unlikely to be removed from office. An impeachment procedure against him launched by left-wing opposition parties failed to advance in Congress. However, calls for the president to step down will increase if there is strong proof of state-sponsored systematic human rights violations during protests, or if the government's social agenda fails to materialize.

Economy: IHS Markit downgraded Chile's economic growth forecast for 2019 from 2% to 1.3%. The effects of the protests will be primarily on domestic demand as well as public policy priorities and government spending.

Chile top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Mining of metals and stone	32.1	-1.4	11.7
2. Real estate activities	23.2	2.8	8.4
3. Construction	19.2	3.0	7.0
4. Public admin and defense, other services	17.4	2.2	6.3
5. Education	15.1	3.0	5.5
6. Retail trade, except of motor vehicles and motorcycles	13.7	1.8	5.0
7. Human health and social work activities	13.4	3.1	4.9
8. Wholesale trade, except of motor vehicles and motorcycles	11.7	2.7	4.3
9. Agriculture, forestry, and fishing	11.6	-0.3	4.2
10. Financial service activities, except insurance and pension funding	9.1	3.2	3.3
Top-10 total	**166.4**		**60.6**

Source: IHS Markit

Colombia

Strengths and weaknesses

Strengths	Weaknesses
The government maintains a strong pro-business agenda. The government supports the development of extractive industries and seeks investment in hydrocarbons and mining, A 4G road infrastructure program will improve transport links. The incoming government plans to reduce corporation tax to 30%, from 33% by 2022.	The activities of a range of illegal armed players including ELN insurgents continue to pose risks for businesses and investors. Frequent changes to the tax regime increase business uncertainty. A weak government without a legislative majority is driving policy uncertainty. Corruption and a weak human-rights record continue to pose reputational and legal risks for businesses.

Source: IHS Markit

Politics: The Iván Duque administration is weak. The ruling coalition lacks a legislative majority and the president's approval rate is at 26% according to polling conducted in mid-November 2019. Although the government is unlikely to collapse in 2020, it will have to compromise on tax, pension, labor reforms, security policy, and privatization initiatives.

Protests increase risk to business interruption: Multi-issue nationwide protests increase the risk of property damage and business interruption. Five weeks of protests that lasted into December 2019 cost the government and businesses about USD400 million due to property damage, looting, and business interruption, particularly in Bogotá. Protest risk receded after the government agreed to a dialogue with protesters, providing an avenue for de-escalation of the confrontation, but unrest can be reignited if the government fails to deliver on the protesters' demands. Ongoing dialogue with strike leaders and new protocols for handling of street protests by police are likely to mitigate violent risk.

Economy: The Colombian economy is forecast to grow by 3.1% in 2019, supported by higher oil prices, stronger consumption, and moderate inflation. In the next decade, aging oil reserves and a lack of new discoveries will drive the need for economic diversification as revenues from that sector decrease. This is likely to encourage successive governments to adopt policies that promote non-hydrocarbon investment.

High risk of attacks: Security improvements resulting from the peace agreement signed between the government and the FARC in 2016 are stalling as a result of the government's lukewarm commitment to the agreement's implementation and the rise in FARC dissidents, who now number about 3,000. Talks with the National Liberation Army (ELN) ended in January 2019 and the government resists re-entering peace talks. Mining, energy, hydrocarbon, and infrastructure projects will face a high risk of assault or improvised explosive device attacks in Arauca, Norte de Santander, Nariño, and Antioquia.

Colombia top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Public admin and defense, other services	29.7	2.5	9.9
2. Construction	27.2	-0.2	9.1
3. Real estate activities	26.9	2.9	9.0
4. Agriculture, forestry, and fishing	21.2	1.8	7.0
5. Retail trade, except of motor vehicles and motorcycles	18.0	6.0	6.0
6. Education	17.7	2.6	5.9
7. Financial service activities, except insurance and pension funding	12.9	3.6	4.3
8. Extraction of crude petroleum and natural gas	12.3	3.3	4.1
9. Accommodation and food service activities	12.2	4.3	4.1
10. Human health and social work activities	9.2	4.9	3.1
Top-10 total	**187.4**		**62.3**

Source: IHS Markit

Peru

Strengths and weaknesses	
Strengths	**Weaknesses**
Peru is rich in natural resources, particularly minerals. Several free trade agreements signed and a full international legal investment framework in place. Peru's operational environment is business friendly, open, and oriented to attract foreign direct investment. Peru's economy has been one of Latin America's success stories over the past decade, with a rapidly growing middle class.	The country is one of the world's largest producers of coca and cocaine, thus increasing security risks. Environmental and indigenous activism is elevated, posing operational constraints to projects, particularly those related to the energy and mining sectors. Weak democratic institutions are underscored by widespread corruption. Large income inequalities often generate protests with the potential to disrupt business. High dependence on copper for export earnings is likely to increase as new mines come on-stream.

Source: IHS Markit

Politics: Following the 26 January Congressional election, no single party has secured a majority leading to a more fragmented parliament. President Martín Vizcarra will need to negotiate with several small parliamentary factions to pass legislation on political and judicial reform, social inclusion, and critical infrastructure development. No major labor, pension, or tax debates or reforms are likely at least until mid-2021.

Potential to allocate mining revenues to social infrastructure: Vizcarra has also lost the lead on an amendment to Peru's Mining Law, which is currently under review by a special government commission and is unlikely to include increasing mining taxes but could lead to longer local communities' consultation processes. In any case, final amendments are highly unlikely to undermine the sector's competitiveness and may rather include improved mechanisms to allocate mining revenues to the regions and advance funds for social infrastructure development benefitting local communities before projects start operations.

Economy: IHS Markit's growth in 2019 was 2.9%. In the near term, a recovery in investment is not expected amid political turmoil and external imbalances. Lower commodity prices will lead to decreased profits in the mining sector and thus lower government tax revenue.

Unrests and protests are expected to increase: Companies operating in the oil and mining industries are likely to face community unrest. There are currently 186 recorded social conflicts in the country, of which 64% are mining related, according to the ombudsman's office. Projects in Southern Peru (including the hot spot Las Bambas project in Apurímac) face higher protest and project delay risks because of local community environmental concerns and demands for compensation via social infrastructure investments and the creation of local jobs, but cancellation risks are low. Early investment in the regions through the Social Advance Fund will mitigate protest risks.

Peru top-10 sectors ranked by value added	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Mining of metals and stone	18.6	1.5	8.9
2. Public admin and defense, other services	16.4	4.9	7.9
3. Agriculture, forestry, and fishing	16.2	1.2	7.8
4. Construction	15.2	3.9	7.3
5. Retail trade, except of motor vehicles and motorcycles	12.9	2.4	6.2
6. Education	12.1	2.8	5.8
7. Accommodation and food service activities	9.9	3.4	4.7
8. Wholesale trade, except of motor vehicles and motorcycles	9.3	3.0	4.4
9. Real estate activities	9.1	2.4	4.4
10. Land transport	7.5	3.4	3.6
Top-10 total	**127.3**		**61.0**

Source: IHS Markit

Uruguay

Strengths and weaknesses	
Strengths	**Weaknesses**
Uruguay is among the most politically stable countries in South America.	Labor laws are rigid.
Security risks are low overall, although they are increasing.	A lack of adequate transport infrastructure outside main urban cities poses challenges for competitiveness and growth.
Uruguay's legal environment for businesses is clear-cut and foreign investment is encouraged in almost all areas of the economy.	The economy is highly dependent on Argentina and Brazil and is vulnerable to external economic shocks.

Source: IHS Markit

Politics: Opposition presidential candidate Luis Lacalle Pou from the center-right National Party (Partido Nacional: PN) won the second-round presidential election on 24 November 2019 with 48.8% of the vote, narrowly defeating ruling Broad Front (Frente Amplio: FA) candidate Daniel Martínez by only 28,666 votes (47.3%). Lacalle Pou was supported by other opposition candidates, mainly Ernesto Talvi from the right-wing Colorado Party (Partido Colorado: PC) and the former military general Guido Manini Ríos, from Cabildo Abierto (CA).

New government to relax labor laws: The next government takes office in March 2020. A PN-led government is likely to seek to relax labor laws, such as reducing the role of the state in tripartite salary negotiations and prohibiting the occupation of premises during strikes, and liberalize fuel imports, which are currently under the monopoly of state-firm ANCAP. However, the next government will have to negotiate to pass policy as, for the first time in 15 years, no political force will have majority in Congress.

Strikes likely, which will disrupt traffic: The influential umbrella labor union Plenario Intersindical de Trabajadores – Convención Nacional Trabajadores (PIT-CNT) is likely to organize strikes lasting between 4 and 24 hours over pay claims, involving hundreds of demonstrators staging peaceful marches in Montevideo city center. This is likely to disrupt traffic and public transport and delay work at government offices and banks. The risk will be higher if the next government attempts changes in labor laws.

Crime is on rise: Increasing crime levels will be a leading concern. Murders increased by 45.8% in 2018 compared with 2017, reaching a homicide rate of 11.8 per 100,000. Most of these were gang related. Theft and robberies are also showing an upward trend. This is partly because of the increased sophistication of gangs.

Economy: High-frequency indicators, such as customs trade and industrial production, signal deceleration in annual growth in late 2019. In addition, the industrial production volatility continues.

Uruguay top-10 sectors ranked by value added	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Construction	5.4	0.1	10.0
2. Public admin and defense, other services	4.1	3.1	7.5
3. Human health and social work activities	3.6	1.8	6.7
4. Real estate activities	3.6	-0.5	6.6
5. Agriculture, forestry, and fishing	3.2	0.5	5.9
6. Education	2.7	1.6	5.0
7. Wholesale trade, except of motor vehicles and motorcycles	2.7	0.8	5.0
8. Retail trade, except of motor vehicles and motorcycles	2.3	0.5	4.2
9. Accommodation and food service activities	2.2	1.3	4.0
10. Financial service activities, except insurance and pension funding	1.8	0.0	3.4
Top-10 total	**31.6**		**58.3**

Source: IHS Markit

Venezuela

Strengths and weaknesses	
Strengths	**Weaknesses**
Venezuela has the largest proven global oil reserves and is rich in other minerals and natural resources.	The government has a strongly anti-business stance against transnational corporations and a resource-nationalist approach to natural resources.
The country still has a full international investment framework in place, with more than 20 effective Bilateral Investment Treaties (BITs), which in practice still allows companies to file arbitration claims against the government.	High levels of corruption and red tape continue to affect everyday business dealings.
Despite lack of investment and maintenance, existing oil and transport infrastructure has the potential to be upgraded to regional standards if there were a change in government and access to international financial support.	Income inequality, poverty, crime, political polarization, and weak democratic institutions affect social and political stability.
Opposition groups control the National Assembly despite being sidelined by the pro-government National Constituent Assembly and the Supreme Court.	The government has withdrawn from both ICSID and the Inter-American Human Rights System.

Source: IHS Markit

Economy is on decline: The Venezuelan economy, in deepening recession since 2014, now faces acutely adverse conditions. Real GDP growth declined over 33% with CPI hyperinflation of nearly 13,332% in 2020. Oil production, exports of which generate over 95% of foreign exchange earnings, is likely to fall below 700,000 barrels per day (bpd), down from 2.4 million bpd in 2015.

Politics and issues with protests and country stabilization: The main priority for President Nicolás Maduro in 2020 is to remain in full control of government functions. This implies maintaining military support, containing anti-government protests, and circumventing US sanctions on Venezuela's oil and financial sectors. Other priorities include stabilizing oil production, food prices, and electricity; securing Russian and Chinese investment and technical support to underpin the economy. Meanwhile, the US, Canada, and most Latin American countries that recognize head of the National Assembly Juan Guaidó as interim president since 23

January 2019 (and his reappointment in the legislature on 5 January 2020) are likely to continue calling for negotiated solution with Maduro's administration involving early free and fair presidential elections.

Protests are likely to escalate: Electricity, water, and food shortages are likely to intensify increasing anti-Maduro protests in the one-year outlook. top military ranks so far have supported Maduro repressing protests and persecuting dissidents mostly because of incentives that have granted them control of the economy, including oil production, ports, and imports, all of them sources of rent and with some factions involved in drug trafficking, fuel smuggling, and illegal mining.

Sections have impact on all assets and increase sovereign default risk: More US sanctions against Venezuela are likely in the one-year outlook increasing non-payment and sovereign default risks. Creditors' legal actions against national oil company Petróleos de Venezuela SA (PDVSA)'s assets are likely. Russia, in turn, is likely to increasingly continue taking over PDVSA's day-to-day logistics for oil transportation and sales.

Venezuela top-10 sectors ranked by value added

	2018 level (Billion USD)	% change (2019, real)	% GDP (Nominal)
1. Extraction of crude petroleum and natural gas	13.6	-40.6	9.3
2. Accommodation and food service activities	13.1	-30.9	9.0
3. Retail trade, except of motor vehicles and motorcycles	12.7	-28.1	8.7
4. Wholesale trade, except of motor vehicles and motorcycles	11.0	-29.7	7.6
5. Public admin and defense, other services	10.5	-27.3	7.2
6. Agriculture, forestry, and fishing	9.6	-6.3	6.6
7. Education	8.7	-37.3	6.0
8. Construction	8.1	-37.5	5.6
9. Manufacture of refined petroleum products	6.9	-18.3	4.7
10. Financial service activities, except insurance and pension funding	5.5	-29.0	3.8
Top-10 total	**99.8**		**68.3**

Source: IHS Markit

Summary of key themes emerging from the EPIC assessment

Several predominant themes that impact supply chain decisions emerge from the EPIC assessment. These include the following:

- Supply chains continue to undergo transition into the era of global, IT-enabled supply chains. This transition is fueled by political and technological innovations.

- Political and technological innovations continue to level the balance of economic power across the Americas, Europe, and Asia. The increasing turbulence in the global geopolitical environment is largely driven by this shift from the power structure of Western Europe and North America that has existed for much of the last 400 years.

- Emerging markets, particularly in Asia and Africa, are experiencing high economic growth rates, providing new consumer markets for finished goods. In all of these countries, the speed of development, changing volume requirements, and varying geographies, political structures, and transportation infrastructure are challenging issues.

- Emerging areas of opportunity for sourcing, manufacturing, and logistics to support regional and/or global consumer markets include Vietnam, Malaysia, India, Dubai, Panama, Chile, Colombia, Uruguay, Brazil, Mexico, Costa Rica, Poland, Czech Republic, Slovakia, Nigeria, South Africa, Kenya, and the southern and western regions of the US. In addition, many opportunities are just beginning to emerge in Africa, largely supported by infrastructure investment from China.

- The emerging opportunities in market, sourcing, and manufacturing locations have predicated changing trade flows that are shifting to highlight new areas of focus for assembly and logistics operations. In Europe, the center of gravity for trade flows has shifted from a western-oriented logistics network to one that is more centrally focused on the continent. In North America, flows are shifting from an east-west or west-east axis to a more south-north access as Mexican ports and manufacturing centers gain in prevalence.

Conclusion

"In preparing for battle, I have always found that plans are useless, but planning is indispensable."
- Dwight D. Eisenhower

Thoughtful risk management remains a hallmark of great supply chain companies, and tools such as the EPIC Report can be used to inform strategies that mitigate supply chain risk. Understanding the critical nuances between countries will enable firms to make better supply chain investment decisions and contingency plans. The EPIC report should be an important reference in the quest for perfect orchestration of the supply chain.

Additionally, while careful planning can help firms mitigate supply chain risks, it won't help them mitigate uncertainty. With risk, there is a known range of outcomes that can be quantified using probabilities. Uncertainty, on the other hand, cannot be quantified easily because the unknowns are unknown. Building flexibility into your operations, even at a higher cost, can help create the flexibility to adapt to whatever comes your way. For example, procuring critical components from two or more locations so that if one node gets cut off, your supply chain can continue to operate. Former US National Security Advisor H.R. McMaster put it this way, "If you try and plan for everything and think you have too much certainty, you create vulnerabilities." The unknowns again point to the importance of understanding the context in which supply chains operate, having flexibility and contingencies where the tradeoffs make sense, and continually adjusting as the world changes around us.

Every supply chain is a little different, so every firm will take different messages from this report. One takeaway may be that "generally, GDP growth rates over 5% and younger populations can be found in less-developed countries where governmental corruption and insufficient infrastructure can be issues." Of course, "generally" supply chains operate well until they don't. Fueling your supply chain plans with a comprehensive understanding of your specific customers and supply chain partners and the specific differences between countries from this report will improve your supply chain orchestration, leading to the beautiful sound of a well-tuned supply chain.

We know that this report offers limited and incomplete information to fully inform your decision making, but it is our hope that it will raise the issue of the importance that decision makers need to place on the environments in which we operate supply chains. Gone are the days in which we could assume that customers will forgive us for failures due to a lack of understanding of these issues; gone are the days where competition would fall victim to the same forces. We are now in an era where the effective practice of supply chain management is often a central tenet in creating competitive advantage for a firm. In this environment, it is imperative that those designing and operating their supply chains are well-informed on issues that impact their success and are always in search of relevant, up-to-date information that they can use to plan their course. It is our hope to refine and build this tool to be a guide for you to do just that. Of course, any significant supply chain configuration activities or new market entries require a much deeper analysis than what is presented here, although the EPIC framework can serve as an organizing and guiding principle. We welcome your input and engagement as we try to make sense of the complex world in which we operate.

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