COFACE
ECONOMIC PUBLICATIONS

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PAYMENT
SURVEY

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Asia-Pacific Corporate Payment Survey 2020: COVID-19 will overturn last year's incipient recovery

Coface's annual Asia Corporate Payment Survey evaluates the payment behaviour of companies across nine economies in Asia Pacific. Data collection took place during the fourth quarter of 2019, before the COVID-19 pandemic, and valid responses from over 2500 companies in the region were collected. 2019 was dominated by trade tensions between the United States (U.S.) and China. Despite these trade disruptions, the region (excluding China) experienced an incipient recovery, favoured by supply chain shifts and additional liquidity from the U.S. Federal Reserve. The recovery will prove short-lived, as the COVID-19 pandemic severely threatens the growth outlook, with many economies in the region expected to contract the most since the Asian Financial Crisis in 1997-1998. On a GDP-weighted basis, the growth of the nine economies in our sample will decline to 0.3% in 2020, -0.65% excluding China. This is much worse than the 4.6% GDP growth rate registered in 2019 and is also weaker than the 2.9% registered in 1998 (0.76% excluding China). In this context, we expect that companies and sectors that continued to experience pressures in 2019 will be in a worse position to navigate the challenges surrounding the COVID-19 pandemic and the global recession in 2020.

65% of respondents stated that they experienced payment delays in 2019, up from 63% in 2018. Excluding China, payment delays were longest in Malaysia (84 days) and Singapore (71 days). However, payment delays lengthened the most in Thailand (up 6 days to 69 days), Malaysia and Taiwan (both up 2 days to 67 days). Divergences were also apparent among sectors. The construction, ICT and energy sectors featured the longest payment delays, with 24%, 28% and 26% of respondents reporting delays of 120 days or above, respectively. Payment delays and cash flow risks often go hand-in-hand. To assess cash flow risks, Coface looks at the ratio of ultra-long payment delays (ULPDs, over 180 days). When these constitute more than 2% of annual turnover, a company's cash flow may be at risk. The proportion of respondents experiencing ULPDs exceeding 2% of annual turnover decreased to 31% in 2019, down from 38% in 2018. However, this "recovery" is more questionable once we delve deeper into the details. The number of respondents stating that they had ULPDs exceeding 10% of annual turnover remained constant in 2019 (13%). This is a sign that cash flow risks deteriorated in some regions and sectors. Excluding China, the highest proportion of respondents with ULPDs exceeding 10% of annual turnover were in Malaysia (7%), Singapore (7%) and Thailand (6%). Similarly, the proportion of respondents reporting ULPDs exceeding 10% of their annual turnover was highest for the transport, energy and construction sectors. These sectors also experienced a deterioration relative to 2018.

The majority of respondents (48%) stated that the main driver behind the increase in payment delays was customers' financial difficulties. These difficulties were, in turn, brought about by fierce competition impacting margins (41%) and lack of financing resources (22%). In the context of a much weaker growth momentum in 2020, this does not bode well for companies in economies and/or sectors in which risks have been piling up in recent years. This is even more worrying considering weak credit management practices, with 50% of respondents reporting that they use no tools to mitigate credit risks.

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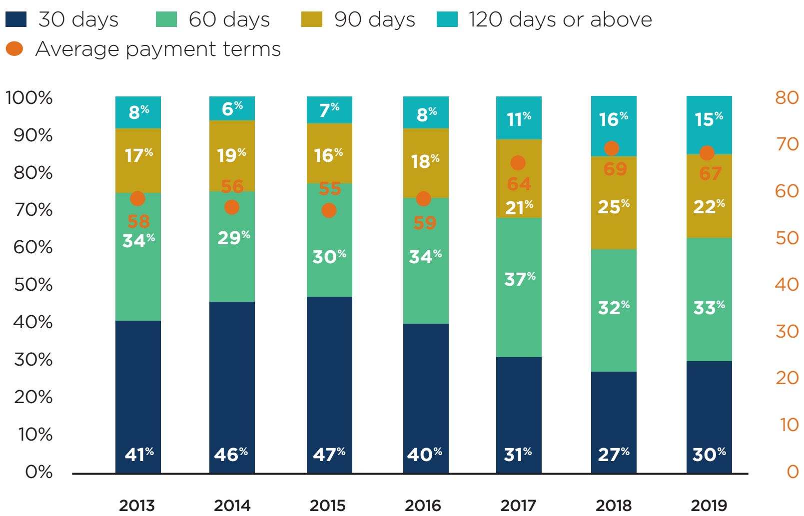
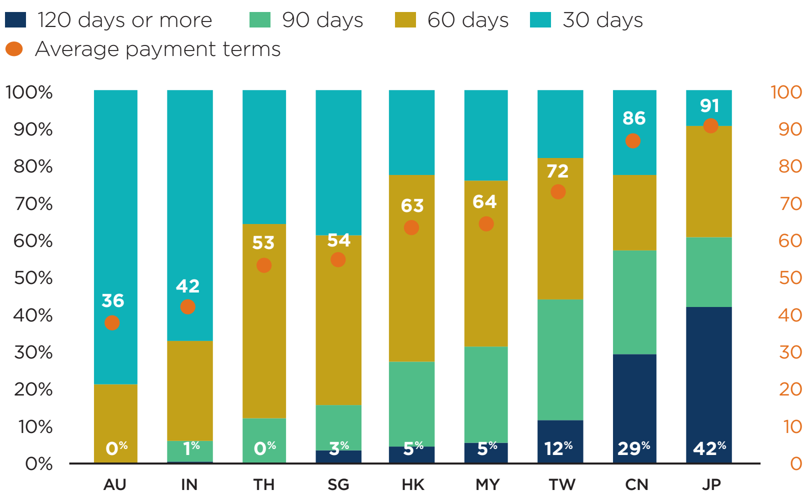
1 PAYMENT TERMS: INCIPIENT RECOVERY BEFORE COVID-19

Chart 1:
Payment terms in Asia-Pacific



Source: Coface Payment Survey

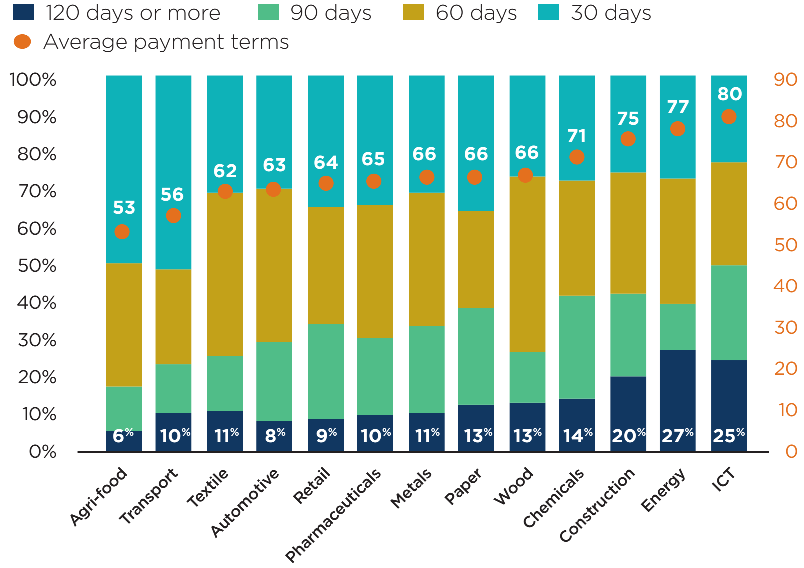
Chart 2:
Payment terms by region



Source: Coface Payment Survey

- Coface's annual Asia Corporate Payment Survey covers nine economies in Asia (see **Appendix**). Data collection took place during the fourth quarter of 2019 and valid responses from over 2500 companies in the region were collected.
- Companies in Asia saw an improvement in payment behaviour in 2019, before the COVID-19 shock in 2020. Average payment terms in Asia decreased to 67 days in 2019, down from 69 days in 2018. This reversed a trend that emerged in 2015. That being said, there were large divergences between the different economies in our sample. Noticeably, China experienced a deterioration in 2019 (see **China Payment Survey 2020**).
- Payment terms were longest in Japan (91 days) followed by China (86 days) and Taiwan (72 days). All other economies had payment terms below average. The proportion of respondents offering payment terms of 120 days or above increased very rapidly in Japan, reaching 42% in 2019 compared to 11% in 2018. Payment terms were shortest in Australia (36 days), with over 80% of respondents offering payment terms of 30 days.
- Payment terms lengthened in Japan (17 days) and Thailand (11 days). Payment terms shortened in India (-8 days) and Malaysia (-4 days), while remaining constant in all other economies.
- Differences were also apparent across sectors. Average payment terms were the longest for the energy, ICT and construction sectors, with over 20% of respondents offering payment terms of 120 days or above. Conversely, payment terms were shortest for agri-food and transport, with fewer than 10% of respondents offering payment terms of 120 days or above.

Chart 3:
Payment terms by sector



Source: Coface Payment Survey

• Payment terms naturally vary from one sector to another based on different product and industrial lifecycles. With that being said, payment terms shortened the most in the transport sector (-18 days), followed by the pharmaceuticals and metal sectors (both -14 days). These sectors contributed the most to the overall decline of average payment terms in 2019. On the other hand, payment terms lengthened in chemicals (+6 days), wood (+3 days), agri-food and retail (both +2 days).

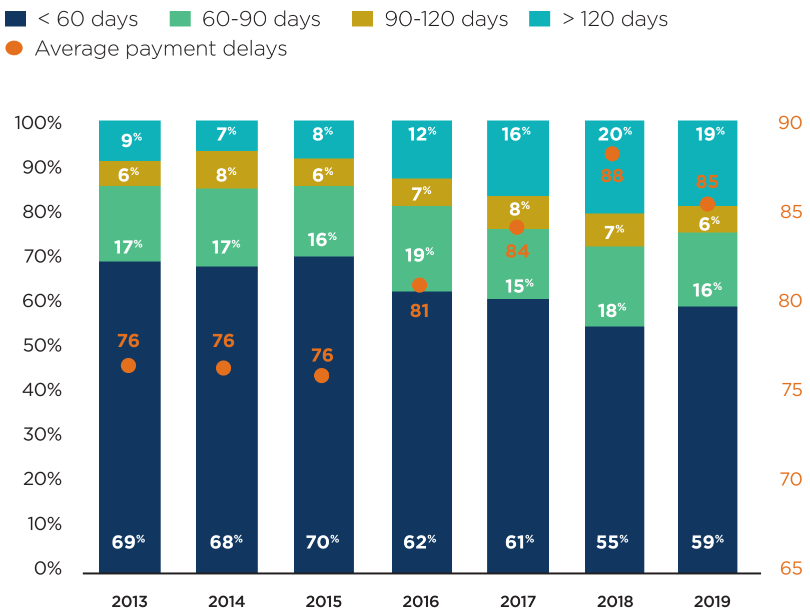
67
DAYS:
Average payment terms in Asia Pacific

2 PAYMENT DELAYS: RISKS ARE CONCENTRATED IN A FEW SECTORS

• 65% of respondents stated they experienced payment delays in 2019, up from 63% in 2018. Despite payment delays becoming more common, their average duration decreased to 85 days in 2019, down from 88 days in 2018. Excluding China, where payment delays deteriorated in 2019, all other economies in Asia Pacific registered an improvement relative to 2018, suggesting that the region was experiencing an incipient recovery before the COVID-19 crisis. Nevertheless, payment delays remained higher than they were before, following the upward trend that began in 2015.

• Payment delays were longest in China, Malaysia and Singapore, consistent with the results from 2018. Payment delays lengthened in Thailand (+6 days), Malaysia and Taiwan (both +2 days). However, payment delays declined significantly in India (-32 days), Japan (-9 days) and Singapore (-8 days). More specifically, this decline came on the back of the proportion of respondents who reported payment delays exceeding 120 days, which declined by 14 percentage points (pp) in India, 7 pp in Japan and 2 pp in Singapore. The proportion of respondents reporting payment delays exceeding 120 days increased by 6 pp in Thailand and 4 pp in Hong Kong. Other regions remained broadly stable.

Chart 4:
Payment delays in Asia-Pacific



Source: Coface Payment Survey

86
DAYS
Average payment delays in Asia Pacific

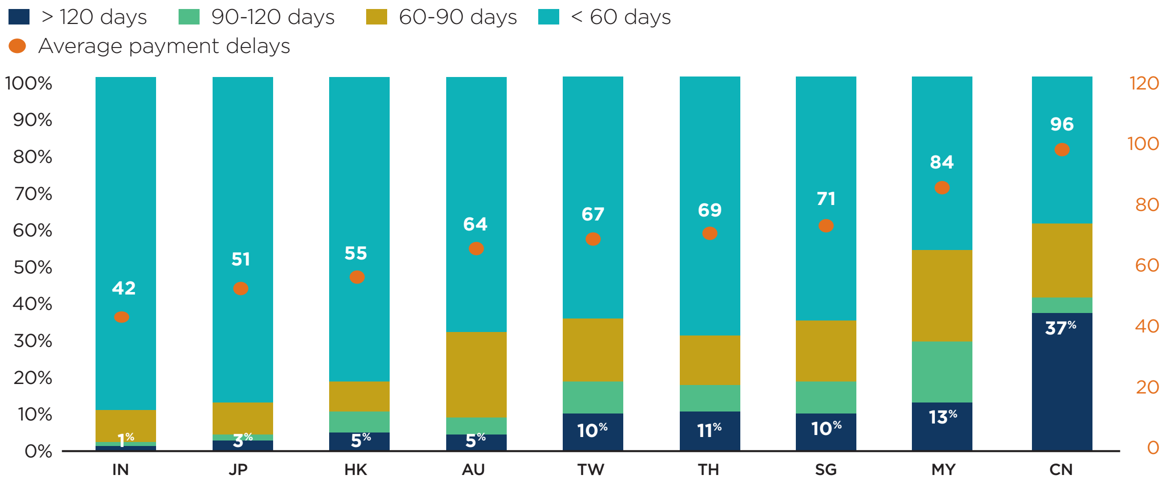
- Divergences were also apparent among sectors. The construction, ICT and energy sectors featured the longest payment delays, with 24%, 28% and 26% of respondents reporting delays of 120 days or above, respectively. On the other hand, the automotive, textile and retail sectors had the shortest payment delays, with 8%, 10% and 11% of respondents reporting delays of 120 days or above, respectively.

- According to Coface's experience around the world, 80% of ultra-long payment delays (ULPDs, over 180 days) are never paid. When these constitute more than 2% of annual turnover, a company's cash flow may be at risk. The higher the ratio, the higher the risk. The proportion of respondents experiencing ULPDs that exceed 2% of annual turnover decreased to 31% in 2019, down from 38% in 2018.

- Despite this decline, the number of respondents stating that they had ULPDs exceeding 10% of annual turnover remained constant in 2019 (13%). This suggests that cash flow risks have deteriorated in some regions. Excluding China, the highest proportion of respondents with ULPDs exceeding 10% of annual turnover were in Malaysia (7%), Singapore (7%) and Thailand (6%). However, this figure decreased or remained broadly stable in all regions excluding China, suggesting that an incipient recovery was underway before the COVID-19 pandemic.

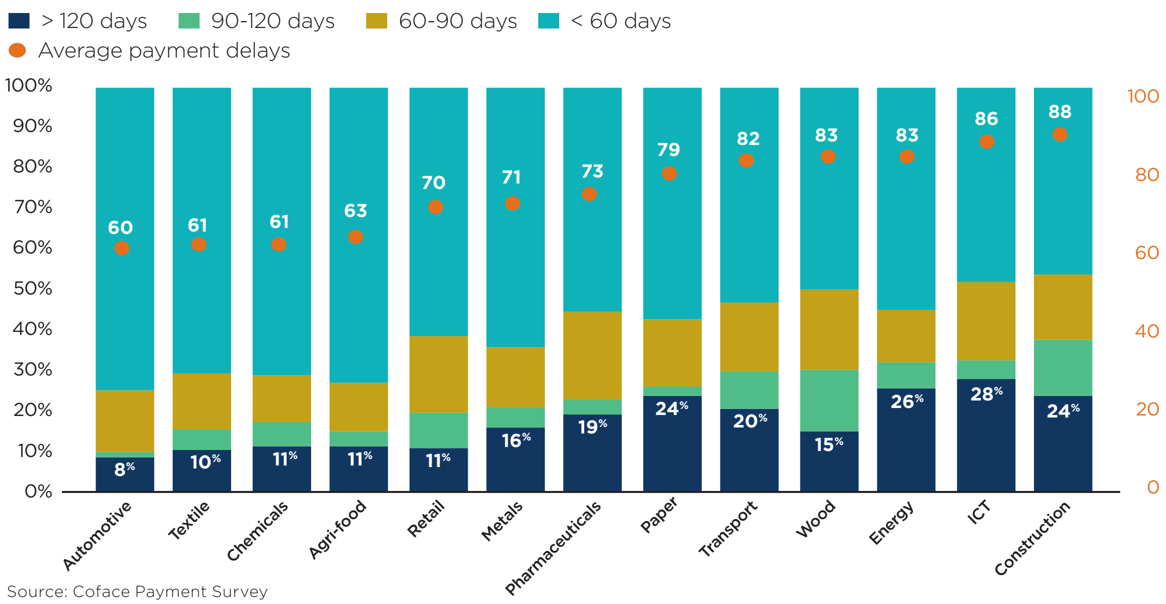
- Sectors with exposure to disruptions surrounding U.S.-China trade tensions and weak commodity prices continued to experience an increase in cash flow risks. The proportion of respondents reporting ULPDs exceeding 10% of their annual turnover was highest for the energy, transport and construction sectors. All of these also experienced a deterioration relative to 2018, led by transport (8 pp). The chemicals sector also experienced a noticeable deterioration (6 pp), followed by pharmaceuticals (5 pp). All other sectors recorded an improvement or remained broadly stable in 2019.

Chart 5:
Payment delays by region



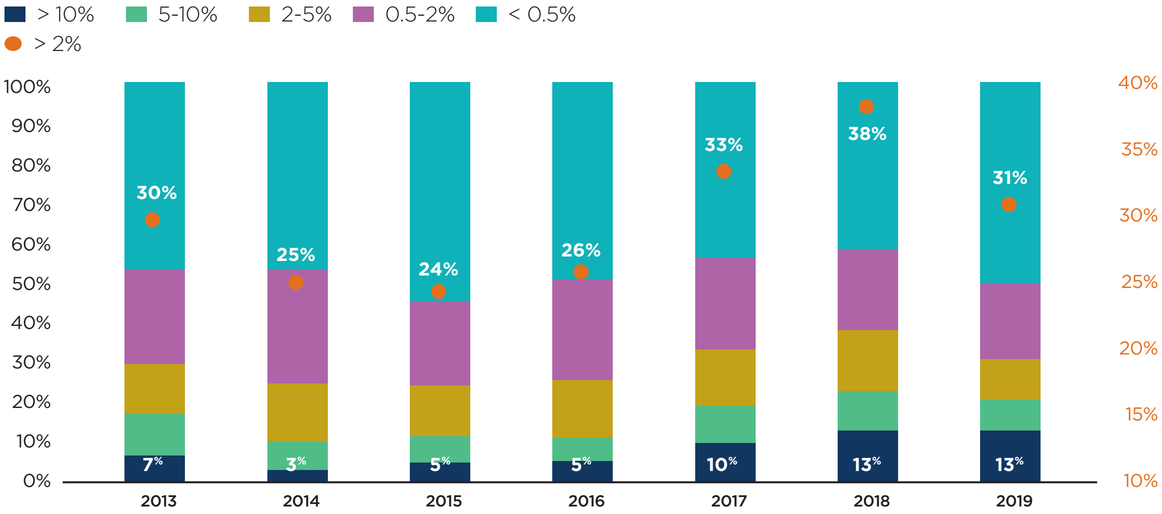
Source: Coface Payment Survey

Chart 6:
Payment delays by sector



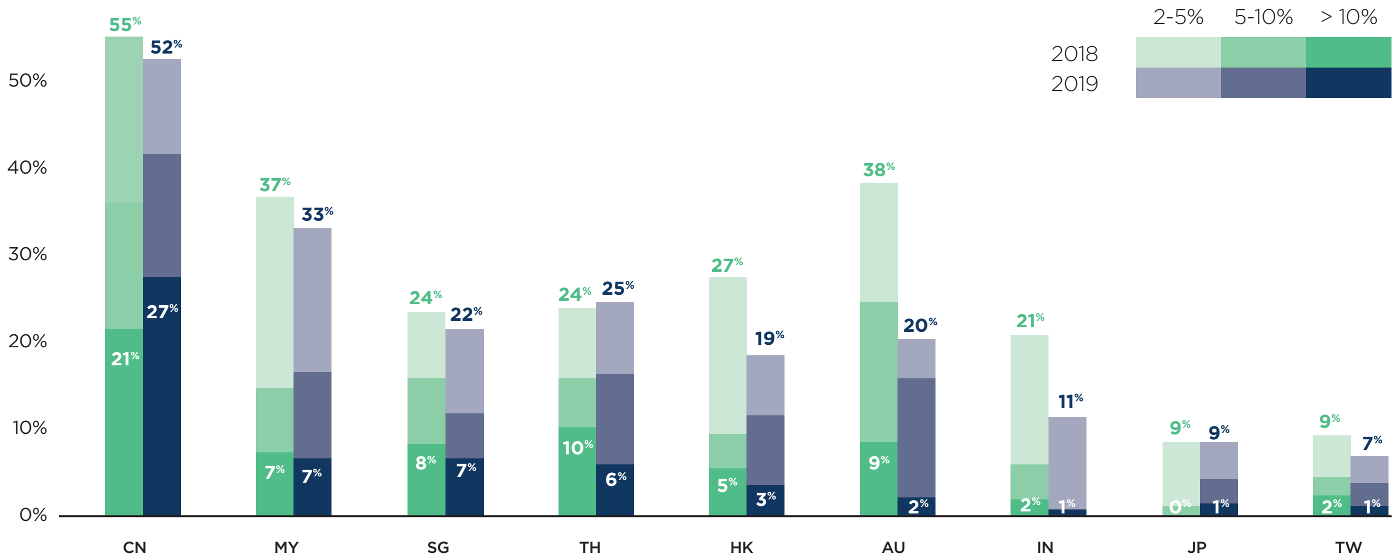
Source: Coface Payment Survey

Chart 7:
ULPDs and annual turnover in Asia Pacific



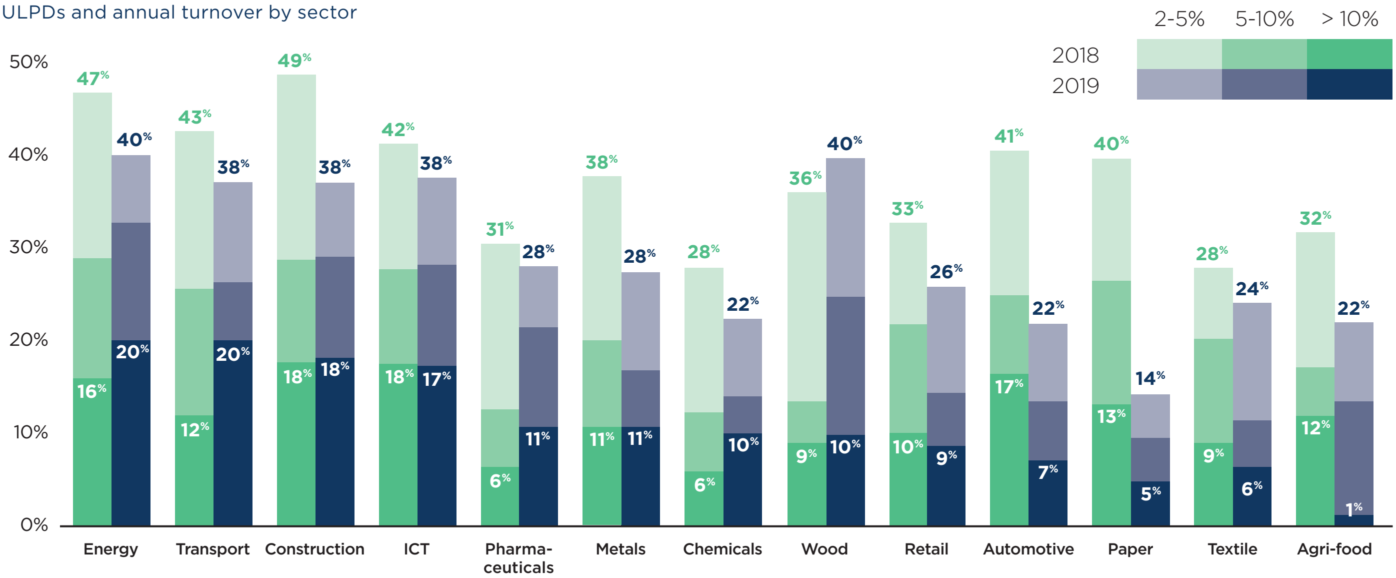
Source: Coface Payment Survey

Chart 8:
ULPDs and annual turnover by region



Source: Coface Payment Survey

Chart 9:
ULPDs and annual turnover by sector



Source: Coface Payment Survey

BOX

The worst recession since the Asian Financial Crisis:

Due to the ongoing COVID-19 pandemic and a deepening global recession, we expect growth in the region to contract severely in 2020, before bouncing back in 2021. Of the nine economies in our sample (ASIA-9), all except China and India will contract in 2020. The contraction will be the worst since the Asian Financial Crisis in 1997-1998. On a GDP-weighted basis, ASIA-9 growth will decline to 0.3% in 2020, down from 4.6% in 2019. The impact would be more severe without China, which went from representing 27.0% of the total combined GDP in 1995 to 55.4% in 2020. Excluding China, we forecast the ASIA-9 GDP to contract by -0.65% in 2020, which is worse than the 0.76% expansion registered in 1998.

Chart 10:
Coface GDP forecasts (GDP-weighted average, %)

Sources: IMF, Coface

The contraction will be sharpest in Thailand (-5.0%), Hong Kong (-4.0%), Singapore (-3.5%), Japan (-3.0%), Malaysia (-2.0%) and Australia (-1.9%). Widespread lockdowns and travel bans will have a substantial impact on the tourism industry, as well as on domestic demand. Private consumption has become an increasingly important driver of growth in the region. Over the last decade, private consumption accounted for roughly 50% of overall GDP growth in Thailand, above 60% in India and above 70% in Malaysia. Moreover, the COVID-19 crisis will trigger a global economic recession in 2020, which will lead to weaker demand from key trading partners in Europe and North America (not to mention China), further dragging on exports. Domestic exports account for a high proportion of GDP in Thailand (67%) and Malaysia (69%). Furthermore, total exports exceed 100% of GDP in Singapore (176%) and Hong Kong (188%), which act as regional trading hubs for goods from and to the rest of the world.

According to our forecasts, GDP growth will rebound sharply in 2021, reaching 6.2% on a GDP-weighted basis (4.65% excluding China). This rate exceeds the average pace of growth between 2010 and 2019, and is seemingly encouraging news for Asia Pacific. However, two caveats are noteworthy. First, our baseline scenario assumes that there will be no second COVID-19 wave in the second half of 2020, a situation that remains difficult to predict. Moreover, the expected increase comes from a very low base, and in most cases, the GDP level (in terms of USD) will remain lower than in 2019.

3 ECONOMIC EXPECTATIONS: COVID-19 WILL AGGRAVATE EXISTING FRAGILITIES AROUND ASIA PACIFIC

- 2019 was dominated by trade tensions between the U.S. and China. Despite exposure to trade disruptions, the region as a whole saw an incipient recovery, favoured by supply chain shifts and demand substitution. A benign external environment, following three interest rate cuts by the U.S. Federal Reserve, also helped to support liquidity conditions, which translated into fewer payment delays and lower cash flow risks.

However, the recovery will prove short-lived, as the COVID-19 pandemic severely threatens the growth outlook, with many economies in the region expected to contract at the fastest pace since 1998. Existing fragilities will be aggravated, meaning that the economies and sectors that experienced a deterioration in 2019 will be more vulnerable in the context of a global recession (see **BOX**).

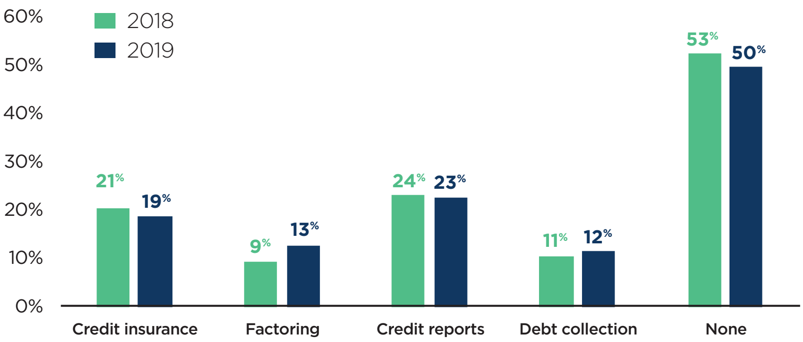
- Over 50% of respondents in India (87%), Malaysia (61%), Taiwan (54%) and Thailand (52%) stated that they expect economic growth to slow in 2020. The majority of respondents elsewhere expected an improvement in economic activity, something that is certainly not happening this year because of the COVID-19 pandemic. Risk managers' prospects in terms of sales and cash flow were also buoyant in most economies – 53% and 49% of all respondents in the region expected an improvement in 2020. These asymmetries are ever more worrying in the context of weak credit management practices – 50% of respondents do not use credit management tools to mitigate risks. Credit agency reports and recommendations continue to be the most commonly used credit management tool (23%), followed by credit insurance (19%).

- The majority of respondents (48%) stated that the main driver of the increase in payment delays was customers' financial difficulties. These difficulties were, in turn, brought about by fierce competition impacting margins (41%) and lack of financing resources (22%). In the context of a weaker growth momentum in 2020, this does not bode well for economies in which risks have been piling up in recent years.

- For instance, respondents in Japan and Taiwan reported that the main reason for customer woes in 2019 was tighter competition impacting margins – notwithstanding an incipient recovery in 2019. Margins are only going to get tighter because of slower growth, which should lead to a deterioration in payment delays in 2020. In India and Australia, a main source of pain for risk managers seemed to be the lack of financing resources. Despite ongoing efforts, India's banking sector remains under pressure, and we expect that non-performing assets will increase from a high base (9.1% in 2019), as a result of disruptions to business following lockdown measures announced in March. Australia features the highest level of household debt in the region (120% of GDP), so liquidity is expected to dry up as households struggle with debt repayments amid higher unemployment and weaker growth.

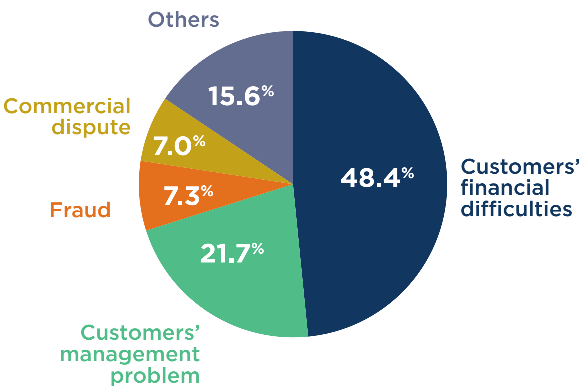
- Finally, economies that remain dependent of external demand such as Thailand will see risks on that front intensify, as global trade and travel came to a halt in 2020 because of the COVID-19 pandemic.

Chart 11:
Use of credit management tools



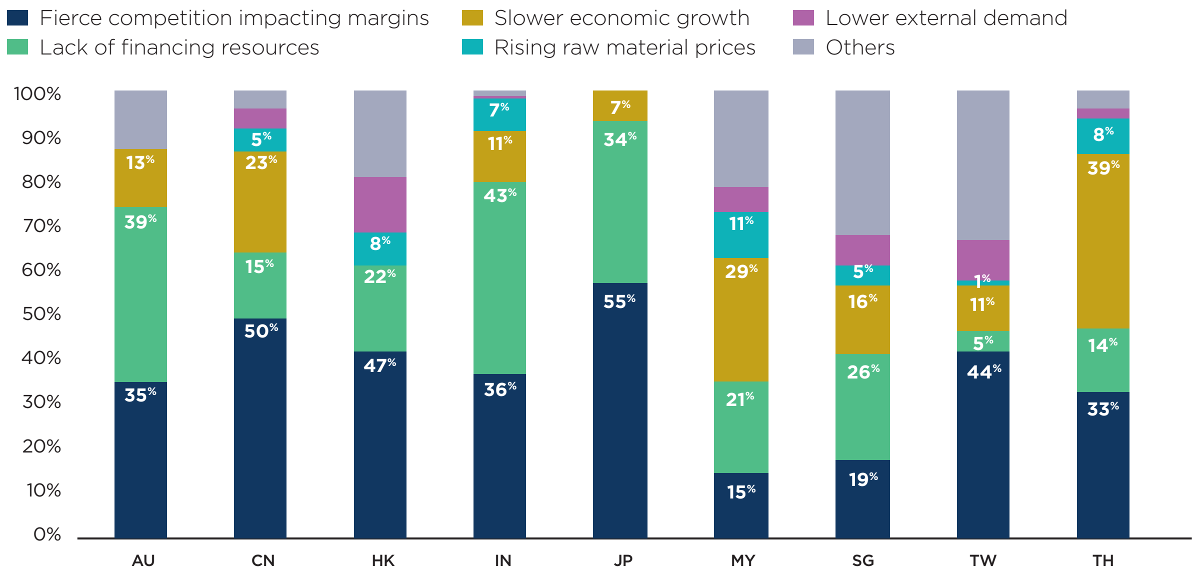
Source: Coface Payment Survey

Chart 12:
Main reason for payment delays?



Source: Coface Payment Survey

Chart 13:
Main reason for customer financial difficulties in 2019



Source: Coface Payment Survey

PAYMENT SURVEY RESULTS
BY ECONOMY

Australia

COFACE ASSESSMENT: A3

	2016	2017	2018	2019	vs. APAC
Payment terms					
% of responents offering payent terms	86.5%	85.0%	79.3%	63.6%	Below
Average payment terms (days)	39	40	47	36	Below
Payment delays					
Experienced payment delays	59.5%	87.1%	73.0%	66.7%	Above
Payment delays increased	9.1%	32.4%	29.6%	34.1%	Above
Average payment delays of more than 90 days	6.8%	9.5%	12.3%	9.1%	Below
Ultra long payment delays > 2% of turnover	13.6%	28.4%	38.3%	20.5%	Below
Overall					**Below**

China

COFACE ASSESSMENT: B

	2016	2017	2018	2019	vs. APAC
Payment terms					
% of responents offering payent terms	78.0%	73.6%	67.3%	66.2%	Below
Average payment terms (days)	66	76	86	86	
Payment delays					
Experienced payment delays	67.9%	63.8%	62.9%	66.0%	Above
Payment delays increased	45.6%	28.6%	40.0%	37.1%	Above
Average payment delays of more than 90 days	26.3%	34.4%	38.8%	41.0%	Above
Ultra long payment delays > 2% of turnover	35.7%	48.1%	55.3%	52.5%	Above
Overall					**Above**

Hong Kong

COFACE ASSESSMENT: A3

	2016	2017	2018	2019	vs. APAC
Payment terms					
% of responents offering payent terms	69.4%	75.4%	91.5%	87.1%	Above
Average payment terms (days)	49	56	62	63	Below
Payment delays					
Experienced payment delays	53.6%	58.2%	68.9%	85.1%	Above
Payment delays increased	20.6%	17.7%	23.3%	37.2%	Above
Average payment delays of more than 90 days	15.8%	15.9%	11.0%	10.5%	Below
Ultra long payment delays > 2% of turnover	23.9%	26.2%	27.4%	18.6%	Below
Overall					**-**

India

COFACE ASSESSMENT: B

	2016	2017	2018	2019	vs. APAC
Payment terms					
% of responents offering payent terms	93.7%	94.1%	96.0%	97.5%	Above
Average payment terms (days)	53	59	50	42	Below
Payment delays					
Experienced payment delays	84.8%	86.8%	82.0%	86.3%	Above
Payment delays increased	29.2%	35.7%	20.5%	17.6%	Below
Average payment delays of more than 90 days	22.1%	28.6%	23.4%	2.4%	Below
Ultra long payment delays > 2% of turnover	29.8%	36.8%	21.0%	11.4%	Below
Overall					**Below**

BUSINESS DEFAULT RISK

- **A1** Very Low
- **A2** Low
- **A3** Satisfactory
- **A4** Reasonable
- **B** Fairly High
- **C** High
- **D** Very High
- **E** Extreme

Japan

COFACE ASSESSMENT: A2

	2016	2017	2018	2019	vs. APAC
Payment terms					
% of respondents offering payment terms	90.1%	67.8%	86.4%	87.5%	Above
Average payment terms (days)	75	98	74	91	Above
Payment delays					
Experienced payment delays	46.4%	50.0%	41.8%	41.7%	Below
Payment delays increased	17.1%	16.4%	14.6%	12.9%	Below
Average overdue times of more than 90 days	8.6%	17.8%	12.2%	4.3%	Below
Ultra long overdue amounts > 2% of turnover	8.7%	6.8%	8.5%	8.6%	Below
Overall					**Below**

Malaysia

COFACE ASSESSMENT: A4

	2016	2017	2018	2019	vs. APAC
Payment terms					
% of respondents offering payment terms	--	80.6%	88.9%	92.0%	Above
Average payment terms (days)	--	48	68	64	Below
Payment delays					
Experienced payment delays	--	20.6%	65.7%	66.5%	Above
Payment delays increased	--	21.2%	26.5%	25.6%	Below
Average overdue times of more than 90 days	--	6.1%	26.5%	29.3%	Above
Ultra long overdue amounts > 2% of turnover	--	9.1%	36.8%	33.1%	Above
Overall					**Above**

Singapore

COFACE ASSESSMENT: A3

	2016	2017	2018	2019	vs. APAC
Payment terms					
% of respondents offering payment terms	89.6%	90.4%	83.7%	86.4%	Above
Average payment terms (days)	51	69	54	54	Below
Payment delays					
Experienced payment delays	79.2%	72.0%	71.1%	65.0%	Below
Payment delays increased	42.6%	29.2%	16.0%	20.1%	Below
Average overdue times of more than 90 days	3.3%	22.2%	19.3%	18.7%	Above
Ultra long overdue amounts > 2% of turnover	25.0%	44.4%	23.5%	21.6%	Below
Overall					**Below**

Taiwan

COFACE ASSESSMENT: A3

	2016	2017	2018	2019	vs. APAC
Payment terms					
% of respondents offering payment terms	71.6%	77.8%	88.7%	85.7%	Above
Average payment terms (days)	65	70	72	72	Above
Payment delays					
Experienced payment delays	51.6%	60.7%	58.3%	55.4%	Below
Payment delays increased	17.6%	14.0%	18.0%	25.8%	Below
Average overdue times of more than 90 days	8.8%	17.5%	15.7%	18.8%	Above
Ultra long overdue amounts > 2% of turnover	9.3%	10.5%	9.2%	7.0%	Below
Overall					**-**

Thailand

COFACE ASSESSMENT: A4

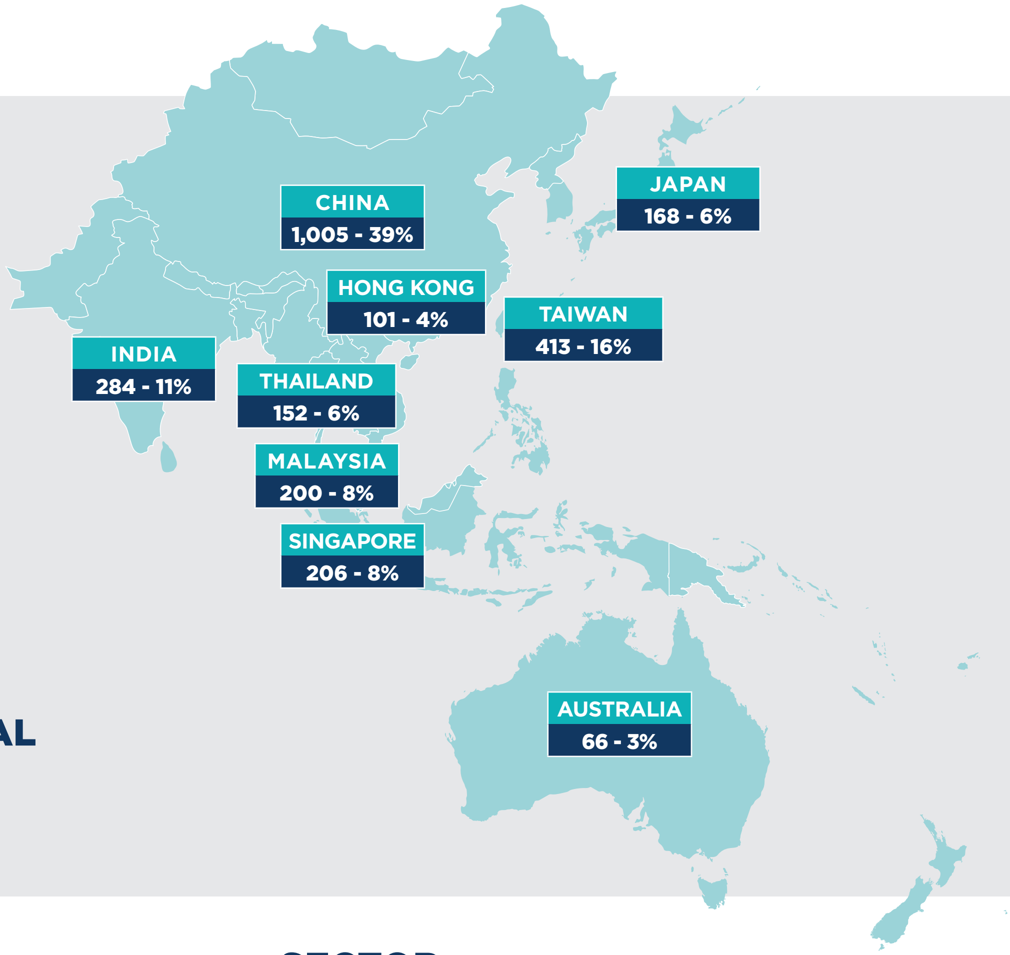
	2016	2017	2018	2019	vs. APAC
Payment terms					
% of respondents offering payment terms	75.1%	82.2%	84.7%	90.1%	Above
Average payment terms (days)	44	53	42	53	Below
Payment delays					
Experienced payment delays	66.7%	51.8%	54.0%	55.3%	Below
Payment delays increased	31.6%	31.3%	26.1%	42.4%	Above
Average overdue times of more than 90 days	14.5%	11.5%	8.0%	17.6%	Above
Ultra long overdue amounts > 2% of turnover	16.6%	22.1%	23.9%	24.7%	Above
Overall					**Above**

BUSINESS DEFAULT RISK

- A1 Very Low
- A2 Low
- A3 Satisfactory
- A4 Reasonable
- B Fairly High
- C High
- D Very High
- E Extreme

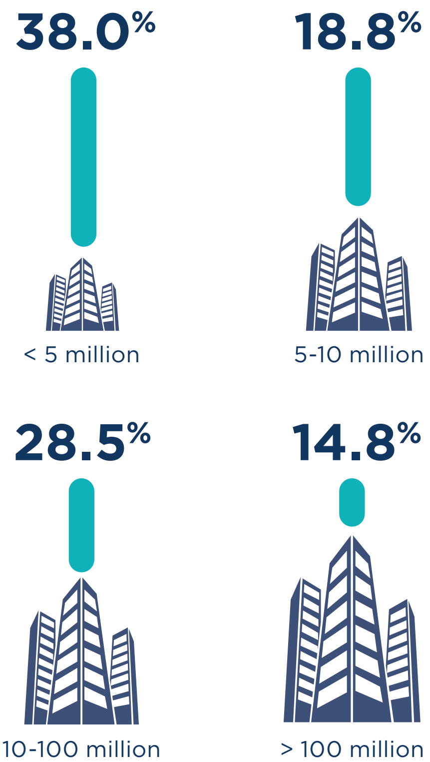
APPENDIX

2,595
COMPANIES

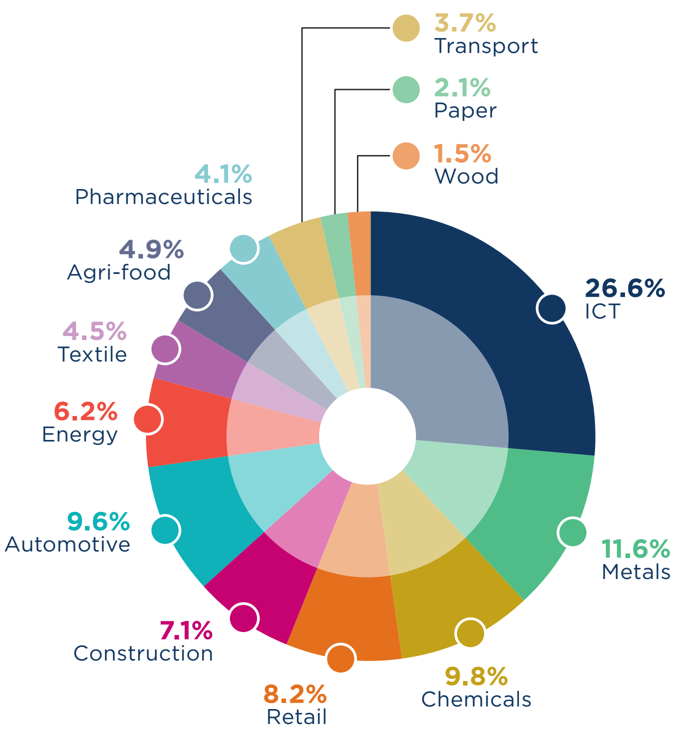


GEOGRAPHICAL DISTRIBUTION

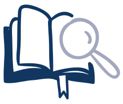
SIZE BY TURNOVER



SECTOR DISTRIBUTION



GLOSSARY



PAYMENT TERM
The time frame between when a customer purchases a product or service and when the payment is due.

PAYMENT DELAY
The period between the payment due date and the date the payment is made.

Code	Country
AU	Australia
CH	China
HK	Hong Kong
IN	India
JP	Japan
MY	Malaysia
SG	Singapore
TW	Taiwan
TH	Thailand

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